(7)

CITY OF VALLEJO

GERALD R. DAVIS
CITY MANAGER

July 24, 1978

Mr. Jack Leister, Head Librarian
Institute of Governmental Studies
109 Moses Hall
University of California
Berkeley, California 94720

Dear Mr. Leister:

This responds to your earlier communication regarding budgetary studies, budgets etc. relating to Proposition 13. Enclosed please find contingency budgets and related materials which were prepared and submitted to the Council. The impact of 13 is obviously lessened by the adoption of SB 154, as amended, by 2212 and accordinly our budgetary reductions did not reflect a four million dollar figure, but rather a figure slightly above two million dollars.

In effect, no pay increases were granted, although the arbitration process with our miscellaneous and fire employees is inexorably moving forward and the "Cost-of-Living Increase" Section of SB 154 is of dubious legality in our minds. Along another line a substantial impact of Vallejo's budgetary cuts will, in effect, transfer unemployment to the private sector due to the fact that numerous capital outlay type construction projects and street projects, major purchases etc. were cut. The full impact of Proposition 13 was, in effect, delayed until the next fiscal year at which point we do not know what kind of State surplus will be available to cities and with what restrictions. The City Council is obviously not pleased with the restrictions imposed in SB 154 and will be working vigorously to change these restrictions and provide a rational revenue base for the cities of California.

If you should have any questions with respect to this matter or if we can be of further assistance to you, please do not hesitate to call me or my Assistant, David J. Lindquist, at 707-553-4275.

Thank you for bringing this matter to my attention.

Very truly yours,

Gerald R. Davis By D.L.

GERALD R. DAVIS
City Manager

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Attachments

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CITY OF VALLEJO

GERALD R. DAVIS

CITY MANAGER

April 25, 1978

SUBJECT: Plan for Reduction of Services under Jarvis-Gann (Proposition 13)

TO: Vice Mayor Rod Boschee
Councilman Robert Keith
Councilman Fred Sibley

The following is a proposal to reduce the 1978/79 municipal budget by $1,042,000 which is the amount of revenue lost that was described in the "best case" assumption in the Finance Director's report to you of March 20, 1978. Our best guess at this point is that cities will receive a portion of the property tax revenues collected under Proposition 13.

As pointed out in Ron Avanzino's report, Gas Tax funds, unencumbered Revenue Sharing and Capital Outlay funds have been shifted to operating fund before the proposed deletions were developed.

The proposed reductions and service level consequences are detailed by Department, as follows:

GENERAL CITY WIDE $ 165,000

Community Development Council and all budgets for advisory Commissions eliminated. All non-reimbursed travel, economic development (SCIDA would be funded for one quarter to allow that agency to seek alternate funding sources), advertising and promotion, publication and dues (except League of California Cities) and support of the North Vallejo Community Center. This item was previously agreed to be deleted and is in addition to the $1,042,000 reduction.

EFFECTS OF BUDGET CUTS

- Eliminate support of all advisory commissions and their activities; cultural, artistic, beautification
- Eliminate participation in meetings, conferences and training activities, thereby reducting effectiveness of Council and staff, in ability to be knowledgeable about current programs, procedures and activities of

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municipal administration

- Elimination of support of Chamber of Commerce, SCIDA, ABAG and other organizations will result in a severe cutback or elimination of the agency's function. It is recommended SCIDA be funded for one quarter to give them time to try to arrange alternate funding sources

LIBRARY OPERATIONS $ 230,069

Reduction in contract fee paid Solano County for Library operation from present $478,869 (including $145,800 lease payment on building) to $245,800.

EFFECTS OF BUDGET CUTS

- JFK Library will operate 11:00 a.m. to 8:00 p.m. Monday through Friday; no weekend service
- Springstowne Branch Library will close, bookmobile service will be discontinued and audio-visual department of the Library will be closed
- County Librarian is looking into utilizing volunteer i.e., Friends of the Library to see if hours and service can be expanded beyond the service levels detailed above

FIRE $ 280,400

EFFECTS OF BUDGET CUTS

- Fire Station No. 1 would be closed and seven Firefighter/Engineers would be laid off. Fire Department Administration office would utilize a portion of Station No. 1.
- Not hire fire truck mechanic authorized but position not filled
- Fire Rating may go from up from present 4 with an increase in fire insurance rates
- The truck company would be taken out of first line service and used for back-up emergency use only.

FINANCE $ 67,000

EFFECTS OF BUDGET CUTS

- Delete Account Clerk in Accounting Division
- Delete Business License Inspector in Commercial Division. Payment of Business License fees will be on the "honor system".

- Delete Word Processing Operator
- Delete Clerk in Water billing resulting in slower service on water connections, turn offs, inquires on water service information

PERSONNEL $ 13,800

EFFECTS OF BUDGET CUTS

- Encumber $10,800 from 1977/78 interest arbitration funds and not budget for future factfinder, arbitration expenses. We would expect to gain multi-year labor agreements from present factfinder/arbittation cases (Miscellaneous and Fire Unions) thereby eliminating the need for these expenses next year
- Remainder of budget cuts would eliminate special projects and equipment purchases

PLANNING $ 19,300

EFFECTS OF BUDGET CUTS

- Eliminate one Assistant Planner position which would have the following effects:
    a. elimination of staff for Architectural Heritage Commission. Four hours per day
    b. reduce staff four hours per day to work on current planning applications, public service, EIRs
- A plan would be formulated and presented to Council to limit the number of new building permits that could be processed in an orderly, complete fashion by planning, engineering and building inspections. Plan, if adopted, may slow building activities in Vallejo

POLICE $ 100,000

EFFECTS OF BUDGET CUTS

- Elimination of School Crossing Guard Program and replacement with volunteer, non-paid crossing guards (Approximately $38,000)
- Elimination of one Communications Operator and one or two Clerk Typist positions (Approximately $27,000 - $39,000)
- Reduce operating costs of Police Department in area of vice enforcement, downtown beat patrols

CITY MANAGER AND BUILDING INSPECTION $ 46,250

- City Manager office, eliminate overtime, part-time help, special services (studies), office supplies, office equipment ($6,800). Result will be slower response to Council directions, less information furnished

- City Clerk to reduce official advertising, special services, overtime and office supplies, $4,085

- Advisory Commission Secretary position eliminated ($15,365)

- Elimination of one Building Inspector position.

PUBLIC WORKS $ 200,000

EFFECTS ON BUDGET

- Reduce street lighting costs by turning out in one-third of existing street lights and reduce requirements on street lights for new subdivisions ($75,000)

- Eliminate sidewalk repair program and transfer responsibility for repair to property owner $50,000

- Reduce water main replacement program from $220,000 annually to $145,000. This will require an ordinance change to transfer use of water service charge funds

MAYOR AND COUNCIL $ 12,000

EFFECTS ON BUDGET

- Eliminate public relations assistant and discontinue annual reports, press releases, etc.

LIABILITY INSURANCE $ 70,000

Proposal is to fully self-insure the City for liability purposes

SUMMARY The grand total of the above reductions is $1,058,488. I have a great amount of detail on the above budget reductions and will be glad to discuss them with you at the budget meeting on April 26, 1978. These are suggested reductions only and I would appreciate any comments you may have.

Very respectfully,

Gerald R. Davis

GERALD R. DAVIS
City Manager

/ray

Please do not remove from book.

City Council

City of Vallejo

Study Session

Discussion on Probable Effect of Proposition 13 and Proposition 8/Senate Bill 1 on the City of Vallejo

May 15, 1978

CITY OF VALLEJO

GERALD R. DAVIS
CITY MANAGER

May 11, 1978

SUBJECT: Probable Effect of Proposition 13 and Proposition 8/SB 1 on the City of Vallejo

TO: The Honorable Mayor and City Council
City of Vallejo
Vallejo, California 94590

Enclosed in your study session packet are two very detailed reports from the League of California Cities. The first report is on Proposition 13 and the second on Proposition 8 and the recently adopted Senate Bill 1 (Behr Bill).

Before saying anything about the combined effects of Proposition 8 and Senate Bill 1, it is imperative to state that SB 1 will take effect only if Proposition 8 passes and Proposition 13 loses. Thus, if Proposition 8 receives a majority of votes and Proposition 13 fails to receive a majority vote, then Proposition 8 and SB 1 and AB 7X (the business inventory tax gradual elimination bill) will take effect on July 1. However, if both Proposition 8 and 13 pass, (i.e., both get 50% of the vote) then Proposition 13 still prevails and SB 1 and AB 7X will "self-distruct".

Proposition 8 is a permissive measure and SB 1 is directly tied to Proposition 8. Proposition 13 is a mandatory measure. Both Proposition 8/SB 1 and Proposition 13 are very complex.

ANALYSIS

PROPOSITION 13 (JARVIS-GANN INITIATIVE

To the layman, Proposition 13 is simple, easy to understand and thus, it is appealing because it is seemingly easy to discern. The reality is that the implications and unanswered questions which the Initiative poses make Proposition 13 exceedingly complex and dangerous in its application. The plain facts are that no one knows what the eventual, actual affect of Proposition 13 will be on the different levels and types of local government - on the different types of bonds - on the different types of

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property taxpayers. It is unknown to local governments whether or not the State would immediately subvent the estimated $3.5 billion dollar surplus back to local governments if Proposition 13 passes. It is not known what the distribution of the 1% of market value property tax allowed will be. The Initiative says "The one percent (1%) tax to be collected by the counties and apportioned according to law to the districts within the counties." It sounds easy, except that there is no law dealing with that subject. Further, it is unclear whether cities, as municipal corporations under existing State Law are considered as "districts". Further, Proposition 13 does not apparently supercede the existing SB 90, State-funded homeowner and business inventories property tax exemptions program, wherein, for a homeowner, property taxes are not paid on the first $1750 of assessed value ($7,000 on market value) of property. These exemptions currently are paid back to the local governments by the State to make up for the revenue losses. Along another line it is assumed that other local (non-property) taxes are not "special taxes" and that existing property transfer taxes may still be levied. On the other hand, it is assumed that this City will refuse to default on its existing bonded indebtedness obligations for non-voter approved bonds.

The plain fact is that Proposition 13 is so technically difficult that any objective report written about its particular affect on virtually any local government must be prefaced with a long list of assumptions, or "best guesses" if you will.

In the development of the Proposition 13 Analysis, dated May 5, 1978 and presented to Council last week, a number of assumptions were made and we want to make these very clear. These assumptions are common in analyses made of Proposition 13 in other communities. The assumptions could be wrong and the budgetary effect could be off by as much as $1 to $1.5 million either way.

The basic assumptions in the staff's development of the "best case" Proposition 13 budget for Fiscal Year 1978/79 are as follows:

1. If Proposition 13 passes, the State will not subvene any of the $3.5 billion surplus to cities, including Vallejo. The surplus would probably be distributed to the schools and radically affected special districts, if at all.

2. Cities will be considered as "districts" and will participate, on a pro-rata basis, in the 1% total tax to be collected by the County. Thus, the distribution of the 1% will be based on the proportion that each "district's" tax rate (excluding rates for the voter-approved bonded debt; e.g. 1965 Municipal Improvement bonds) bears to the total County rate. In Vallejo's case, our $2.00 rate for operations represents 18% of the total adjusted County rate of $11.1261.

3. The total increase in net assessable assessed valuation allowable over the 1975/76 secured (real

property) tax base (excluding State assessed property) each year will be the 2% stipulated in Proposition 13. We realize that there are valid judgments that hold that new construction, and reassessment increments through sales, are excluded from the 2% allowable growth factor (i.e., added to the assessed valuation after the 2%), but we have chosen the more conservative approach due to (1) we do not know the figures relative to these items by tax year, and (2) their overall impact in relationship to the total tax collected is not overly significant insofar as they exceed the 2% growth allowance factor.

4. Taxes to be collected in 1977/78 and 1978/79 on Personal Property (i.e., Unsecured) will not be materially affected as the Initiative only addresses real property (i.e., Secured) and most opinions are that the assessed value of personal property will remain the same. Also, as the tax rate to be applied is the prior year's Secured Rate, the effect of Jarvis/Gann will not be felt until 1979/80.

5. The assessed valuation on the Utility Roll which is State assessed would be subject to the same increase limitation as the regular Secured Roll (i.e., 2% per year). This is an item which is probably the most unclear and opinions range from here to there. Some say that because the initiative mentions only "County Assessor valuation" that this property is excluded completely from taxes while others say that because it was not mentioned in the Initiative, it can be assessed at its current full market value and is not subject to the 2% limitaton.

   However, our assumption is that the Utility Roll will be subject to the 1% total tax limitation and the 2% per year growth factor as we doubt that it was intended for the utilities and common carriers to be exempted from the Initiative. Since the Utility Tax Roll revenue is about 6% of the total, the assumption is not dangerous even if it should prove to be 100% wrong.

6. The question of the Homeowner and Business Inventory Exemption revenue is also a highly debatable one; however, the most common opinion supports the theory that the reimbursement revenue from the State will decrease by the same proportion as our General Property taxes will which was the assumption used in the analysis.

7. We assumed that entitlement period number 10 Federal General Revenue Sharing Funnds will be forthcoming without any readjustment. This

assumption has been confirmed. However, Proposition 13 will negatively affect Federal Revenue Sharing, especially after 1980.

8. Following the same pro-rata distribution assumption regarding the total 1% property tax, the East Vallejo Fire Protection District would be unable to pay to the City the contract amount required. This results in an estimated $55,000 General Fund revenues loss.

9. We computed the radical cash flow losses of tax incremented redevelopment areas, which cash flows are used to make either lease payments or direct bonded debt service payments. These are summarized in the attached Table No. 1. The total shortfall for Fiscal Year 1978/79 would be $70,000. It was assumed that Council would not allow the City to default on these bonds so the $70,000 was added to the Proposition 13 budget as an added expenditure item. The future year projections, assuming little development, are alarming.

10. We assume that the City would not accept cost increases for park maintenance of City-owned parks which the Greater Vallejo Recreation District currently maintains, but would not maintain in their Proposition 13, budget.

11. We assumed that Proposition 13 would not significantly affect the City's residential growth rate and that building permit fees, subdivision fees, conveyance taxes, etc. would continue at forecasted levels.

Based upon the following assumptions the "best case" Proposition 13 property tax loss is about $2.4 million. The "worst" case estimate is a property tax loss of $4.165 million.

The report submitted last week possibly gave the Council the impression that the total budget cuts under the "best case" Proposition 13 budget are $1,042,000. If this impression was given, and this is what was reported in the press, then it is important that this be clarified, as it already has been with the Budget Committee several weeks ago. The $1,042,000 is a net "hard dollar" cut in the General Fund and related retirement funds, which results after internal fund transfers occur in various capital expenditure funds. These "transfers" mean the elimination of planned projects of major significance to the community and these were cut first. We believe it is important to now present a list of the cuts which were recommended prior to the General Fund cuts.

"Best Case" Proposition 13 cuts with revenue loss of $2.4 million.

1. Cut $650,000 of Federal General Revenue Sharing projects to be proposed in the regular (non-Jarvis budget) on May 15. The projects which are proposed

to be eliminated are: phase 2 improvements to Hogan High School auditorium, additional support for South Vallejo Community center construction, Museum remodeling, Police Department anti-crime capital improvement package, River Park improvements, Fire Station 1 remodeling, miscellaneous general capital improvements, a brush fire truck, additional sprinklers, turfing and lighting at Vallejo Junior High, and improvements to the Veterans Memorial building.

The $650,000 would be transferred (reprogrammed) to the General Fund for operating support of basic services.

2. Gas Tax. $316,500 transfer (reprogram) all Gas Tax revenues for street maintenance. Currently, the City transfers about one-half of the Tax revenues to the General Fund for operating support for maintaining the streets. The "best case" Proposition 13 budget proposes a transfer of virtually all Gas Tax Funds. The effect is to eliminate all new traffic signal projects and all street widening projects.

3. Water System Fund. $27,500---the fund balance is depleted and the Water Fee Fund (for school ground improvments, turfing, etc.) is eliminated. This requires an ordinance change.

4. Capital Outlay Fund. $200,000. This fund is depleted by an extra $200,000 over last year, but a healthy balance is still indicated. Additional cuts are possible but a reserve (fund balance) at the end of year is still shown. The reasons are many, but are basically because of legal conformity with the Council's existing ordinances and the need for a reserve to cover tax increment/lease revenue cash flow problems (see Table No. 1) which would occur is 1979/80.

5. General Fund Miscellaneous cuts prior to cuts to basic services. $165,000. These are the previously detailed cuts of all the Commissions, travel, publications, dues to organizations, Chamber of Commerce, S.C.I.D.A.,etc.

These cuts add up to approximately $1,359,000. The remaining $1,042,000 in cuts were outlined in detail in the report submitted last week, also attached. These are General Fund (operating departments) service level cuts and these cuts do not include the Federal CETA program cuts anticipated, but still unknown. The Local Transportation Fund (bus system support) was not cut at all because the City's General Fund supports the bus system. with only $32,000 and it seemed to be highly inappropriate to virtually close down a million

dollar (State, Federal money and fare box) bus system and the taxi subsidy program ($100,000) in order to save the $32,000. Similarly, the Community Development (CDBG) Revenue Sharing program is not yet proposed for budget cuts. The reason for this is the length of time legally required to make changes in this budget. Should Proposition 13 pass, numerous changes would be proposed to the Council, but the overall budgetary effects of the changes, if approved by Council, would not be felt until later in 1978/79 budget year.

The proposed budget cuts under Proposition 13 are not sacred. There are possible cuts which reduce the impact on service level cuts for <u>one year only</u>. The Equipment Replacement Fund could be decimated as can the Capital Outlay Fund and Parkland Dedication Funds. Ordinance changes would be required; major Council policy changes of long standing would have to be changed. Council could chose to default on the City/Redevelopment Agency/ Parking Authority bonds. This option would destroy the City's credit rating, but it is an option. We do not recommend these kinds of actions in a Proposition 13 circumstance.

SUMMARY OF PROPOSITION 13 IMPACT

We have listed some (by no means all) of the ambiguities of Proposition 13. We have stated our basic assumptions about the most probable effect of Proposition 13 on the City and we have outlined our recommendations for initial budgetary cuts if Proposition 13 passes.

The summary of budget cuts presented above are only as good as the assumptions which we have made. However, these assumptions have been made after considerable consultation with Federal, State and County officials. The assumptions generally conform to the Legislative Analyst impartial analysis of Proposition 13 which is contained in the Official California Voters Pamphlet on pages 56 - 57. The largest unknowns are the Courts, the State Legislature and the Governor, most of whom will be running for election in November after the June primaries.

Some of the assumptions could be wrong. The impact could be $1.5 million <u>more</u> in cuts or <u>less</u>. It would depend on the outcome of: (1) lawsuits which would surely follow, but would most probably have no immediate effect on local governments, and (2) what the State Legislature would do with the State surplus. Would the State Legislature subvene the $3.5 billion back to all affected local governments or just to those local governments which are the most seriously affected, such as fire districts, many of which are totally dependent on the property tax for support? These are very difficult questions and the staff cannot recommend a Proposition 13 budget based in large part on the hope that the Legislature will solve the problem. The City operates essential services required year round, 24 hours per day.

A school district, a library, a park district can close their shop and go out of business. A city providing water, fire, police and public works service cannot shut down. Therefore, the service levels have been cut dramatically. If the State did subvene a million plus dollars of the State surplus back to the City of Vallejo, the major operating cuts would not be required. This action would get the City through next year at which time the State would not have another $3.5 billion to distribute for the next year, unless State taxes were increased.

Obviously, the Council has local revenue raising options which could make up the Proposition 13 shortfall and reduce the cuts. Increasing other local taxes was discussed by the Budget Committee and rejected. The feeling of the Budget Committee was that if Proposition 13 should pass, the vote would mean a mandate to cut spending, not increase other local taxes.

We trust this section of the report sufficiently details and explains the difficulties of a Proposition 13 budget. Staff is exploring other possible negative impacts.

PROPOSITION 8/SENATE BILL 1

The attached League of Califoria Cities analsyis of Proposition 8/Senate Bill 1 is very comprehsnsive. Homeowner property taxes are reduced by 30%, effective July 1, 1978. Additional renter relief is provided. The overall fiscal effect on the City of Vallejo is negligible. The financing transfers (welfare) largely occur between the counties and the State. Replacement revenue is provided out of the State surplus. Services would not have to be cut under Proposition 8/Senate Bill 1.

Senate Bill 1 does provide a long term property tax revenue lid on local governments, which in a few years should place a substantial crimp on property tax revenue growth, which in turn should restrict expenditure growth. In any event, Proposition 8/Senate Bill 1 are "responsible" measures in that property tax relief and replacement revenue are provided.

Should Council have any questions with respect to this matter, please let me know.

Very respectfully,

Gerald R. Davis

GERALD R. DAVIS
City Manager

/ray
attach.

REDEVELOPMENT AGENCY

OF THE

CITY OF VALLEJO

INTEROFFICE MEMORANDUM

May 11, 1978

TO TED A. MacDONELL, Director of Community Development

FROM EARL S. MARCUS, Assistant Director of Community Development

SUBJECT Effect of Jarvis-Gann Initiative, Proposition 13, on Redevelopment Agency Debts

There are three bond issues directly affected by the passage of Proposition 13, the Jarvis-Gann Initiative. The reason for this is that they are non-voter approved bonds. These are the Waterfront Development Tax Allocation Bonds (for the South Vallejo Industrial Park), the Marina Vista Tax Allocation Bonds, Series B, and the City Hall Refunding Lease Revenue Bonds. The Library Bonds are not included in this analysis because they have been supported by State subvention revenues and, thus, are not affected by the passage of Proposition 13. The details of the effects are on Table IA attached.

If Proposition 13 passes, these bonds face the possiblity of default because of the reduction of tax increment revenue to pay the annual debt service payments. To avoid default capital reserves will have to be made in the amount of $70,000 per year for the industrial park bonds, beginning in Fiscal Year 1978-79, and $250,000 for the City Hall bonds, beginning in Fiscal Year 1983-84.

The Marina Vista Tax Allocation Bonds, Series B, were estimated to be retired by Fiscal Year 1979-80. Tax increment revenues with investment and lease income in Fiscal Years 1980-81 and 1981-82 were estimated to be sufficient to pay off the loan we owe to the U. S. Department of Housing and Urban Development for the Marina Vista Project Land. If Proposition 13 is put into effect, the resulting decrease in tax revenues will delay the payoff of the Marina Vista Tax Allocation Bonds, Series B, and the loan to HUD until approximately 1992. This assumes that this arrangement is approved by HUD. The effect of the delay in paying off these two obligations of the Agency due to the reduction in tax increment revenue puts the City Hall Lease Revenue Issue in a potential default position in Fiscal Year 1982-83.

Top priority must be given to increasing the market value immediately in the Vallejo Waterfront Development Project by $6,000,000, and in the Marina Vista Project by $22,000,000 by 1983 (at which point the deficit for the City Hall Lease Revenue Issue alone would be $250,000 per year until 2002). If this can be accomplished, the capital reserves will not be necessary.

Some $1.5 billion in similar bonds throughout California are similarly affected. The attached Municipal Financing Newsletter from Stone and Youngberg, Municipal Bond Consultants, describes the situation statewide (Table IB).

Earl S. Marcus

EARL S. MARCUS
Assistant Director of
Community Development

mp

Attachments

TABLE I A

REDEVELOPMENT AGENCY OF THE CITY OF VALLEJO

DEBT SERVICE SCHEDULE FOR NON-GENERAL OBLIGATION BONDS AT MAY, 1978

	Project	Debt Service		Estimated Cash Flow If Prop 13 Passes	Difference (Deficit)	Additional Market Value Development Needed to Meet Deficit	Remarks
1.	Vallejo Waterfront Development Project, Tax Allocation Bonds, Series A, $1,700,000 Outstanding (Industrial Park)	1978-79	$150,000	$80,000	(70,000)	$6,000,000	This development should produce $70,000 additional revenue.
		1979-80	148,000	80,000	(68,000)		
		1980-81	150,000	80,000	(70,000)		
		1981-82	147,000	80,000	(67,000)		
		1982-83	149,000	80,000	(69,000)		
		Thru 1999					
2.	Marina Vista Tax Allocation Bonds, Series B, $510,000 Outstanding	1978-79	70,000	108,000	$38,000		These funds may be used to repay the HUD closeout loan.
		1979-80	68,000	108,000	40,000		
		1980-81	66,000	108,000	42,000		
		1981-82	61,000	108,000	47,000		
		1982-83	58,000	108,000	50,000		
		Thru 1992					
3.	Department of Housing and Urban Development Marina Vista Closeout Loan, $839,000 for Leased Land Outstanding	1978-79	839,000	38,000			This loan shall be paid as revenues are available.
		1979-80		40,000			
		1980-81		42,000			
		1981-82		47,000			
		1982-83		50,000			
4.	City Hall Refunding Lease Revenue Bonds, Series 1977, $3,425,000 Outstanding	1978-79	252,000	700,000			The reserve for City Hall debt service through 1982 is currently $700,000.
		1979-80	252,000	90,000			
		1980-81	249,000	90,000			
		1981-82	250,000	90,000			
		1982-83	246,000	90,000	(9,000)	$22,000,000	

TABLE IB

MUNICIPAL FINANCING LETTER

Our March letter discussed Proposition 13 (Jarvis-Gann Initiative), based on information available at the time. Since then, many agencies of local government and private organizations have examined possible effects of the initiative on their operations. Disruptions of the municipal bond markets have already occurred. The response to a bid opening today is more likely to be one or two bids rather than the usual four to six, and interest rates are substantially higher than for issues not affected by Proposition 13.

The State Senate Local Government Committee has estimated that more than $1.5 billion of California bonds secured by tax increments, and $1.2 billion of lease-purchase bonds secured by facility-generated revenues, are potentially in danger of default if the proposed tax limits go into effect. Even if the municipality does not default, the bonds would lose value because of impaired security.

Moody's Investors Service, Inc., has advised clients that, pending resolution of relevant measures on the June 6 ballot, it is suspending its rating on all outstanding California tax allocation bonds, and will not rate any new tax allocation bonds. Moody's is currently reviewing all outstanding tax allocation bond issues which carry their rating so that a decision may be made on each issue whether to withdraw, reduce, or maintain the existing rating if Proposition 13 is approved by the electorate.

We understand that Moody's will continue to accept rating requests on lease-revenue bonds and review each application on the basis of the remaining security if Jarvis-Gann passes. If reduced property taxes, plus other revenue sources, appear to be insufficient to meet normal operating expenses of the lessee and proposed lease payments, no rating will be assigned.

Standard & Poor's Corporation takes the position that it will not change any of its existing ratings of California tax allocation bonds solely because of the Jarvis-Gann Initiative, and will continue to rate new tax allocation bonds and other new bonds which might be affected by the initiative. S & P believes there are several reasons why this initiative may not go into effect, including disapproval by the voters and a successful challenge on constitutional grounds. In the event the measure is passed, S & P will then assess its impact on existing ratings.

Some observers hold that not all local government bonds will be adversely affected by Proposition 13. Outstanding general obligation issues, for example, could well increase in value because they are excluded from the 1% tax rate limitation. Revenue bonds whose repayment is tied to a specific facility or income-producing source may be employed to a greater extent in the future.

Many local governments have programs partially funded by state or federal aid, based on matching funds. If Proposition 13 passes, rate limits under the initiative may preclude participation in such grant programs at the local level. The Federal Office of Revenue Sharing estimates that California could lose $67 million of such funds, of which $45 million would be lost to cities and counties. Apart from matching fund programs, it seems inevitable that the state would be forced to adopt an ever-growing role in the funding of local government operations, with a lessened responsiveness to local needs and a loss of local control and accountability.

As reappraisals are triggered under Jarvis-Gann, newer homeowners in a neighborhood would come to bear a much greater burden of government costs than taxpayers who owned property in 1975 and remained there ever since. Tax burdens would vary according to the date of purchase, not the worth of property. The threat of substantial reassessment upon sale of property could inhibit the incentive to sell, or to buy.

There is the unfortunate possibility that some local governments might be tempted to increase assessed valuations by any means available. The emphasis would be away from open space and on land development of any kind to increase assessed valuation and lessen the revenue squeeze. Because "new construction" receives a current valuation under the initiative, some municipalities could be especially attracted to land uses which yield maximum tax revenues, yet demand little in services. In effect, this means industrial development at the expense of low and moderate income housing.

For further information, please call Lee Mitchell (415) 989-2300, in San Francisco, or Bob Bulot (213) 483-1643, in Los Angeles.

CITY OF VALLEJO

GERALD R. DAVIS
CITY MANAGER

May 5, 1978

TO: The Honorable Mayor and City Council
City of Vallejo
City Hall
Vallejo, California

SUBJECT: Plan for Reduction of Services Under Jarvis-Gann (Proposition 13)

The following is a proposal to reduce the 1978/79 municipal budget by $1,042,000 which is the amount of revenue lost that was described in the "best case" assumption in the Finance Director's report to you of March 20, 1978. Our best guess at this point is that cities will receive a portion of the property tax revenues collected under Proposition 13.

As pointed out in Ron Avanzino's report, Gas Tax funds, encumbered Revenue Sharing and Capital Outlay funds have been shifted to operating fund <u>before</u> the proposed deletions were developed.

The proposed reductions and service level consequences are detailed by department, as follows:

<u>GENERAL CITY WIDE</u> $ 165,000

Community Development Council and all budgets for advisory Commissions eliminated. All non-reimbursed travel, economic development (SCIDA would be funded for one quarter to allow that agency to seek alternate funding sources), advertising and promotion, publication and dues (except League of California Cities) and support of the North Vallejo Community Center. This item was previously agreed to be deleted and is in addition to the $1,042,000 reduction.

<u>EFFECTS OF BUDGET CUTS</u>

- Eliminate support of all advisory commissions and their activities; cultural, artistic, beautification.

- Eliminate participation in meetings, conferences and training activities, thereby reducing effectiveness of Council and Staff, in ability to be knowledgeable about current programs, procedures and activities of municipal administration.

- Elimination of support of Chamber of Commerce, SCIDA, ABAG and other organizations will result in a severe cutback or elimination of the agency's function. It is recommended SCIDA be funded for one quarter to give them time to try to arrange alternate funding sources.

LIBRARY OPERATIONS $ 230,069

Reduction in contract fee paid Solano County for Library operation from present $478,869 (including $145,800 lease payment on building) to $245,800.

EFFECTS OF BUDGET CUTS

- JFK Library will operate 11:00 a.m. to 8:00 p.m. Monday through Friday; no weekend service.

- Springstowne Branch Library will close, bookmobile service will be discontinued and audio-visual department of the Library will be closed.

- County Librarian is looking into utilizing volunteer i.e., Friends of the Library to see if hours and service can be expanded beyond the service levels detailed above.

FIRE $ 250,400

EFFECTS OF BUDGET CUTS

- Fire Station No. 1 would be closed and six Firefighters or Engineers would be laid off. One Firefighter would be reallocated to Fire Prevention Inspector to place additional emphasis on prevention. Fire Department Administration office would utilize a portion of Station No. 1.

- Not hire fire truck mechanic authorized but position presently unfilled.

- Fire rating may go up from present 4 with an increase in fire insurance rates.

- The truck company would be taken out of first line service and used for back-up emergency use only.

FINANCE $ 67,000

EFFECTS OF BUDGET CUTS

- Delete Account Clerk in Accounting Division.

- Delete Business Lisense Inspector in Commercial Division. Payment of business license fees will be on the "honor system".

- Delete Word Processing Operator.
- Delete Clerk in Water billing resulting in slower service on water connections, turn offs, inquiries on water service information.

PERSONNEL $ 13,800

EFFECTS OF BUDGET CUTS

- Encumber $10,800 from 1977/78 interest arbitration funds and not budget for future factfinder, arbitration expenses. We would expect to gain multi-year labor agreements from present factfinder/arbitration cases (Miscellaneous and Fire Unions) thereby eliminating the need for these expenses next year.
- Remainder of budget cuts would eliminate special projects and equipment purchases.

PLANNING $ 19,300

EFFECTS OF BUDGET CUTS

- Eliminate one Assistant Planner position which would have the following effects:

  a. elimination of staff for Architectural Heritage Commission. Four hours per day.

  b. reduce staff four hours per day to work on current planning applications, public service, EIRs.

- A plan would be formulated and presented to Council to limit the number of new building permits that could be processed in an orderly, complete fashion by planning, engineering and building inspections. Plan, if adopted, may slow building activities in Vallejo.

POLICE $ 100,000

- Elimination of School Crossing Guard Program and replacement with volunteer, non-paid crossing guards (Approximately $38,000).
- Elimination of one Communications Operator and one or two Clerk Typist positions (Approximately $27,000 - $39,000).
- Reduce operating costs of Police Department in area of vice enforcement, downtown beat patrols.

CITY MANAGER AND BUILDING INSPECTION $ 46,250

- City Manager office, eliminate overtime, part-time help, special services (studies), office supplies, office equipment ($6,800). Result will be slower response to Council directions, less information furnished.
- City Clerk to reduce official advertising, special services, overtime and office supplies, ($4,085).
- Advisory Commission Secretary position eliminated ($15,365).
- Elimination of one Building Inspector position.

PUBLIC WORKS $200,000

EFFECTS ON BUDGET

- Reduce street lighting costs by turning out one-third of existing street lights and reduce requirements on street lights for new subdivisions ($75,000).
- Eliminate sidewalk repair program and transfer responsibility for repair to property owner ($50,000).
- Reduce water main replacement program from $220,000 annually to $145,000. This will require an ordinance change to transfer use of water service charge funds.

LAW DEPARTMENT $ 14,600

EFFECTS ON BUDGET

- The reduction of $14,600 will require the Law Department to adopt one of the following alternatives: (A) reduce work week of all Law Department personnel by four hours, or (B) eliminate position of Deputy City Attorney. The excess funds produced by this reduction beyond the $14,600 would be for outside legal assistance as needed.
- Effect would be a reduction in the capability of the Law Department to respond to requests for legal services. Third Attorney position was created to handle legal presentation at factfinding, arbitration, and other personnel matters, i.e. Civil Service hearings, disciplinary hearings, etc. Complaints of public nuisances will not be pursued.

MAYOR AND COUNCIL $ 12,000

EFFECTS ON BUDGET

- Eliminate public relations assistant and discontinue annual reports, press releases, etc.

LIABILITY INSURANCE $ 70,000

Proposal is to fully self-insure the City for liability purposes.

SUMMARY: The grand total of the above reductions is $1,043,088. I have a great amount of detail on the above budget reductions and will be glad to discuss them with you at the Council meeting of May 8, 1978. These are suggested reductions only, and I would appreciate any comments you may have.

Very respectfully,

Gerald R. Davis

GERALD R. DAVIS
City Manager

tm

League of California Cities

California Cities
Work Together

Sacramento, California
March 1978

TO: MAYORS, COUNCIL MEMBERS, CITY MANAGERS AND CITY CLERKS IN NON-MANAGER CITIES, AND CITY ATTORNEYS

SUBJECT: THE JARVIS-GANN INITIATIVE -- PROPOSITION 13

The enclosed analysis has been prepared to give cities the League's perspective on the major potential impacts of Proposition 13. While it by no means exhausts the topic, it does answer many questions and serves as a foundation from which more detailed information can be developed.

This packet will be most effectively utilized in conjunction with local budget proposals and other materials which indicate the specific effect which Proposition 13 will have on individual cities. City officials should take every opportunity to share factual information about the local impacts of Proposition 13 with city residents. The highly emotional nature of this initiative makes it important to remember that nobody's interests will be served by utilizing over-simplifications or demagoguery to present the issues. The League is confident that a wise choice will be made in June if cities and other local governments and concerned citizens concentrate on providing their fellow voters with complete and accurate information. Additional copies are available upon request.

Included with this analysis is a comparison of Propositions 8 (SB 1) and 13 (Jarvis-Gann) which appeared in the Los Angeles Times on March 13, 1978. The League's in-depth analysis of Proposition 8, including side-by-side comparisons of Proposition 8 and Proposition 13, is currently being prepared by League staff and should be ready for distribution to cities within the next two weeks. In addition, the League plans to conduct a series of regional briefings during April to fully discuss Proposition 8 and SB 1. More information will be made available on these meetings when details have been made definite.

Also enclosed, as an example of a legal analysis of Proposition 13, is a summarization of a report prepared by the Assistant City Attorney in Los Angeles. In some instances the conclusions drawn in this legal report differ from the more liberal interpretations of the initiative's effects which have been reflected in the League's analysis. Both interpretations are defensible and provide additional stimulus for thought and discussion.

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Property Tax Limitation
Initiative Constitutional Amendment
(The Jarvis Initiative)

The initiative proposes adding Article XIII A to the Constitution to read:

Section 1.

(a) The maximum amount of any ad valorem tax on real property shall not exceed one percent (1%) of the full cash value of such property. The one percent (1%) tax to be collected by the counties and apportioned according to law to the districts within the counties.

(b) The limitation provided for in subdivision (a) shall not apply to ad valorem taxes or special assessments to pay the interest and redemption charges on any indebtedness approved by the voters prior to the time this section becomes effective.

Section 2.

(a) The full cash value means the County Assessors valuation of real property as shown on the 1975-76 tax bill under "full cash value", or thereafter, the appraised value of real property when purchased, newly constructed, or a change in ownership has occured after the 1975 assessment. All real property not already assessed up to the 1975-76 tax levels may be reassessed to reflect that valuation.

(b) The fair market value base may reflect from year to year the inflationary rate not to exceed two percent (2%) for any given year or reduction as shown in the consumer price index or comparable data for the area under taxing jurisdiction.

Section 3.

From and after the effective date of this article, any changes in State taxes enacted for the purpose of increasing revenues collected pursuant thereto whether by increased rates or changes in methods of computation must be imposed by an Act passed by not less than two-thirds of all members elected to each of the two houses of the Legislature, except that no new ad valorem taxes on real property, or sales or transaction taxes on the sales of real property may be imposed.

Section 4.

Cities, Counties and special districts, by a two-thirds vote of the qualified electors of such district, may impose special taxes on such district, except ad valorem taxes on real property or a transaction tax or sales tax on the sale of real property within such City, County or special district.

Section 5.

This article shall take effect for the tax year beginning on July 1 following the passage of this Amendment, except Section 3 which shall become effective upon the passage of this article.

Section 6.

If any section, part, clause, or phrase hereof is for any reason held to be invalid or unconstitutional, the remaining sections shall not be affected but will remain in full force and effect.

Proposition 13 - An Analysis
(The Jarvis-Gann Initiative)

<u>What Does The Initiative Do?</u>

In Summary, Proposition 13 provides that:

1. Local Government

   (a) Tax rate limit on real property of $4 per $100 of assessed value (1% of full cash value). Taxes used for repaying bonded debt already approved by the voters is excluded from the $4.00 rate.

   (b) Counties would levy the $4 tax rate and distribute the revenue according to statute (to be enacted by the Legislature) "to the districts within the counties."

   (c) Local agencies are authorized to impose "special taxes", which are defined only as taxes other than property taxes or property transfer taxes, if approved by a 2/3 vote of the qualified electors.

2. Property Assessments

   Full cash value is defined as the 1975-76 value of property, adjusted by the Consumer Price Index, not to exceed growth of 2% per year <u>or</u> the current value when property is purchased, newly constructed, or a change in ownership occurs.

3. State Taxes

   (a) Any legislative increase in the level of state taxation must be passed by a 2/3 vote of each house.

   (b) Legislature is prohibited from levying a property tax or property transfer tax.

4. Implementation

   To be effective on July 1, 1978, except legislative voting requirement which will be effective immediately.

SUMMARY OF ARGUMENTS

The effect Proposition 13 would have on local government and individuals in California must be understood by the voters if an informed choice is to be made in June. To accomplish this important educational process, all views must be given a fair hearing. For this reason, the League has prepared the following summary of pro and con arguments about Proposition 13.

Advantages to Property Owners and Renters

1. Homeowners will receive $2.3 billion in property tax relief. (Excluding losses to federal and state income taxes.)

2. Businesses will receive $3.9 billion in property tax relief. (Excluding losses to income taxes.)

3. Growth in property taxes will be curtailed by freezing assessment growth at 2% a year.

4. Rents may be positively affected in some areas, depending on the competitiveness of the local rental market.

5. A 2/3 voting requirement will make it more difficult to increase state and local taxes.

6. Placing property tax limitation and other provisions of Proposition 13 in the State Constitution prohibits the Legislature from altering the changes that will be accomplished.

Advantages to Local Government

1. Severely curtailed revenues will force local government to eliminate unnecessary expenditures.

2. Increased difficulty in raising local taxes will provide additional incentive for economies in government.

3. The initiative provides a shock, if one is needed, to realign government priorities in California.

Disadvantages to Property Owners and Renters

1. Homeowners will receive only 34% of the property tax relief. Business will receive 56% with the remaining 10% going to the state through reduced contributions to business inventory and homeowner property tax relief.

2. Proposition 13 does not guarantee that landlords will pass on property tax savings to tenants in the form of lower rents. Rentals comprise 45% of all residences in California.

3. Any increases in state and federal income taxes resulting from decreased deductions for property tax payments will erode homeowner tax savings. Of the annual $7 billion property tax reduction, approximately $295 million will be lost by taxpayers to the state and $1.9 billion to the federal government.

4. An increase in either state sales or income tax to replace local revenues will fall more heavily on homeowners than do property taxes. Homeowners pay 35% of property taxes, 55% of sales taxes and 75% of income taxes.

5. Renters are not guaranteed lower rents, yet they will share the burden of higher sales or income taxes.

6. Proposition 13 will cause a constant shift of the total property tax load from businesses to homeowners. This happens because homes are sold more often than businesses and will be reassessed and taxed at full market value after each sale.

(over)

Advantages to Local Government

4. If property tax savings are of greater benefit to business than possible negative business impacts resulting from impairment of local government services, state and local governments might benefit economically by the lower cost of doing business in California.

5. Strict revenue limitations will provide an effective argument against demands for service increases and increases in public employees' salaries and benefits.

6. Significant changes in revenue structure will create an opportunity to initiate innovative service delivery patterns. For example, short-term, renewable "enlistment" contracts for policemen might be considered.

7. Answers taxpayers' demands to local government for lower taxes.

Disadvantages to Property Owners and Renters

7. Two identical properties, receiving the same services, will have dramatically different property taxes simply because of different purchase dates.

8. Assessing newly purchased homes at full market value will penalize people purchasing homes for the first time, older citizens wanting to change homes, and homeowners forced to relocate.

9. There is no provision in the initiative to reduce the assessed valuation of property which has declined in value.

Disadvantages to Local Government

1. Local government will lose over $7 billion in annual revenues.

2. In the absence of replacement revenues, property tax reductions will force a cut in local services with no provision for assuring that basic levels of public safety and education are preserved.

3. Revenue reductions and tax rate limits will restrict the use of General Obligation Bonds and other types of bond financing, making capital improvement projects such as schools, parks and libraries more difficult and expensive to accomplish.

4. Proposition 13 will encourage the growth of "BIG" government by forcing increased local reliance on state and federal revenue sources.

5. Local control over taxation levels is restricted by imposing a stringent voting requirement on local tax increases.

6. The method of distributing property taxes is completely changed, with no guidance offered to develop a new allocation method. As a result, units of local government with high reliance on property tax revenues could lose, in some cases, over half of their funding.

7. Proposition 13 threatens the viability of redevelopment activity in California and makes default on many redevelopment obligations very possible.

Proposition 13: Local Revenue Effects
(in $ millions)

Current Law	Actual 1974-75	Actual 1975-76	Actual 1976-77	Actual 1977-78	Projected 1978-79
Gross assessed value (millions)	$74,299	$82,692	$93,717	$106,694	$120,031
Statewide average tax rate	$ 11.24	$ 11.33	$11.19	$ 10.68	$ 10.36[c]
Total property tax revenue (millions)	$ 8,351	$ 9,369	$10,487	$ 11,395	$ 12,435
Percent growth	--	12.2%	11.9%	9.2%[a]	9.1%
Jarvis/Gann Initiative					
Assessed value (millions):					
"Equalized" real property[b]	N.A.	$76,800	$80,640	$ 85,480	$ 91,460
Personal property	N.A.	12,288	13,720	14,766	16,612
Total		$89,088	$94,360	$ 99,841	$108,072
Maximum tax rate					$ 5.00[d]
Maximum property tax revenues (millions)					$ 5,404
Total Local Revenue Loss (in millions; current-law revenues less proposed maximum revenues)					$ 7,031

a Adjusted to reflect substitution of timber yield tax for tax on value of timber.

b Based on 2 percent annual reassessment increase and estimates of value added by transfers of ownership and new construction.

c Average homeowner rate is $10.73.

d $5.00 rate includes a maximum of $1.00 to pay for existing voter-approved indebtedness, based on statewide averages. (As existing debt is repaid, this additional $1.00 will gradually be reduced and eventually eliminated.)

Source: Legislative Analyst

Revenue Limitations

Property Tax Loss

The Legislative Analyst has estimated that Proposition 13 will reduce 1978-1979 local property tax revenues by more than $7 billion. This is a reduction of 57%. The proponents argue that $7 billion is a reasonable cut in overall state and local expenditures. Opponents note that the reduction strikes only at local government and will therefore have a more severe impact than would a similar loss shared by the State.

Using the figures in the preceding table, the revenue loss to cities breaks down this way:

Fiscal Effect on Cities*

Cities' share of 1976-77 property tax revenues	$ 1,335,000,000
Total Property Tax Levies - 1976-77	10,487,000,000
Percent of total property tax revenues received by cities**	13%
Total Estimated Property Taxes 1978-79	12,435,000,000
Total Property Taxes if Jarvis passes	5,404,000,000
Total Local Property Tax Revenue Loss	$ 7,031,000,000
Percent Loss	57%
Cities Projected share of 1978-79 Property Tax Revenues (13%)	1,616,550,000
Minus 57% property tax loss if Jarvis passes	-921,433,000
Remaining City Property Tax Revenue***	$ 695,117,000

* Assumes cities will receive the same proportion of overall property taxes as in 1976-77. If the courts interpret "districts" strictly, cities will receive no property tax revenues.

** Includes state subventions to cities for existing property tax relief programs.

*** Assumes continuance of property tax relief subventions from state to cities at reduced levels.

On a statewide average, cities will lose nearly 14% of all revenues, excluding revenues from self-supporting enterprises such as harbors, ports and many sewage and water facilities. Many cities will face more severe restrictions because of a greater reliance on property taxes. The City of Los Angeles, for example, faces a 22% reduction in all revenues, excluding enterprise activities, if Proposition 13 is approved.

2/3 Vote Requirement

Proposition 13 will restrict the ability of local governments to increase taxes by requiring a 2/3 vote of all "qualified electors" to raise "special taxes." The initiative does not define "special taxes" but it seems to refer to all taxes which local government can levy other than new property taxes, which are prohibited. According to one body of legal opinion this voting requirement may even be interpreted to mean that existing taxes must be approved by 2/3 of the qualified electors.

If, as is likely, "qualified electors" means registered voters, the practical effect of this provision may not be apparent to the average voter. Most people will not be aware that a 2/3 voter turnout is seldom achieved and that acquiring approval by that amount for a tax increase is an even less likely occurrence. The following statistics for the most recent gubernatorial and presidential elections indicate that in recent years a 2/3 voter turn out and approval of any measure by 2/3 of the voters would have been a very hard task to accomplish:

	1974		1976	
Statewide Voter Turnout	Primary	General	Primary	General
% of Registered Voters who voted	54	64	73	82
% of Vote needed for 2/3 approval	123*	104*	91	81
% of persons eligible to register who voted	36	45	42	54
% of Vote needed for 2/3 approval	185*	148*	159*	123*

* In cases where 2/3 of the voters did not turn out, achieving 100% voter approval would not have been enough to pass a local tax issue.

It should be recognized that voter turnout figures for gubernatorial and presidential elections are much higher than turnouts for municipal elections, which often do not exceed a 25% turnout of local registered voters. The difficult future for local tax issues is also seen in the 1976 elections, which would have offered the only possibilities for meeting the 2/3 vote requirement in 1974 and 1976. Assuming that "qualified electors" means registered voters, there would have been two chances to pass local tax issues in that year. Even in those cases, achieving the overwhelming voter approval (91% in the primary 81% General) which would have been needed for a local tax issue would have been a very unusual achievement.

Revenue Sharing and Matching Grants

The Office of Revenue Sharing estimates that recipient governments in California will lose $67 million in revenue sharing funds as a result of Proposition 13. This $67 million will be diverted to governments in other parts of the country.

Cities in California will lose the greatest portion of revenue sharing funds. Currently, $750-800 million of Revenue Sharing money is divided in three roughly equal parts between cities, counties and the state. Since a major factor in allocating these funds is "tax effort", a reduction in city and other local property taxes will mean a reduction in Revenue Sharing received. It appears that property taxes levied within the 1% limit will actually be levied by counties, thus transferring a portion of the city "tax effort" to the counties. Additional revenue sharing allocations will shift from local government to the state if the Legislature increases its "tax effort" to replace decreased property tax revenues.

In addition to the loss of revenue sharing funds, large revenue reductions will impair local government's ability to take advantage of various federal and state grants which require local matching funds. This is particularly unfortunate since matching programs assist greatly in providing a high return on local expenditure.

Replacement Revenues

State Taxes

State tax increases will be needed if the Legislature acts to replace the $7 billion loss to local governments. Increases which would be required in the state's three major taxes to raise $7 billion are:

—108% sales tax increase from 6% to 12½%.

or

—125% increase in state income tax.

or

—333% increase in bank and corporation tax rate from 9% to approximately 39%.

or

—some combination of a lesser increase in all of the above.

The initiative requires approval by 2/3 of all members of each house of the Legislature for any increase in state taxes. Since it is particularly difficult to achieve legislative agreement on tax issues, this provision creates the possibility that a minority of the Legislature will block a tax increase designed to replace property tax losses.

City Taxes

In 1976-77 cities would have had to increase all available local non-property taxes by more than 70% in order to replace the $921 million property tax loss created by Proposition 13. Sources include Transient Lodging Taxes, Business License Taxes, Licenses, Permits and Service Charges, Utility Users Taxes, etc. If, under the initiative, these taxes are defined as "special taxes", increasing them would require approval by 2/3 of the "qualified electors". As suggested in the attached summary of a legal opinion from the Los Angeles City Attorney's Office, local voter approval may also be required for existing "special taxes".

Bonded Indebtedness

Proposition 13 will restrict the use of several types of bonds currently relied on as tools to finance schools, water and sewer facilities, hospitals, fire and police stations and other capital improvements. Revenue reductions and restrictions will also limit the security which local governments can offer bond purchasers. This will drive interest rates up, making capital projects more expensive. According to some private municipal financing consultants, revenue reductions may place some existing bonds in danger of default. Potential impacts of Proposition 13 on several types of bonds are as follows:

General Obligation Bonds

General obligation bonds have been widely used as an inexpensive method of funding basic community improvements such as schools, additions to fire and police facilities, parks and libraries. The usefulness of this funding source is shown by the fact that citizens of California's cities had chosen to incur over $1 billion of general obligation debt as of 1976-77.

Proposition 13 protects current general obligation debt by allowing the 1% tax rate limit to be exceeded by the amount needed to repay G.O. indebtedness approved prior to July 1, 1978. The future use of general obligation bonds, for all practical purposes, is eliminated. Current law already requires approval in a municipal election by a 2/3 vote. In addition, new G.O. bonds would have to be funded within reduced taxation limits since future tax rate overrides to pay debt service on voter approved G.O. bonds will not be allowed. It is almost inconceivable that both of these criteria, 2/3 vote and financing within the tax limit, could be met.

Revenue Bonds

The flexibility of financing methods which is now provided by various types of revenue bonds will be significantly curtailed by Proposition 13. Revenue bonds are used for many purposes including: Schools, hospitals, government buildings, parking structures, and sewer and water facilities. Their current utility is evident in 1976-77 figures showing that California cities had, to that point in time, chosen to incur over $2.5 billion in revenue and lease-supported bonded inbebtedness. Some revenue bonds are supported solely from user charges and will not be directly affected by Proposition 13. In cases where a combination of general tax revenue and user charges are used, however, users will have to pay higher fees to make up for the reduction in available property tax support. If this cannot be accomplished, the bonds may face default. Saleability of future bonds will depend on the willingness of the users to pay the total costs of a project. The instability of this arrangement will probably cause higher interest rates, adding additional costs to the user.

Assessment Bonds

These bonds are issued for improvements, such as street lighting and gutters, in an area where the residents desire more services or facilities than are provided by other taxing jurisdictions in the area. The Bonds are usually paid by a special assessment, other than a property tax, on all of the property owners who benefit from the improvement. However, the least expensive type of bond assessment carries a promise of the benefitting property owners to levy a small property tax increase in case the debt is not paid by the special assessments. The prohibition of new property taxes imposed by Proposition 13 will not allow this security to be offered. Therefore, citizens will have to use the more expensive types of bonds for financing special improvements.

Redevelopment

Cities in particular are concerned that Proposition 13 threatens the viability of the 250 redevelopment projects currently underway in 121 cities and 3 counties. Overall, the initiative will bring into question the security of at least $1.5 billion of debt incurred to finance redevelopment projects. This problem will occur because Proposition 13 places a 2% limit on annual increases in property value. As a result, the "tax increment" which is produced by rising property values within a redevelopment project area, and which redevelopment agencies rely on to finance their activity, will be dramatically reduced. Revenue is further limited by the 1% tax rate.

Tax increment financing, including tax allocation bonds, is the primary financing tool for virtually all redevelopment activity in California. Therefore, unless an alternate financing method can be developed, Proposition 13 will make redevelopment more costly and difficult, if it is possible at all.

Redevelopment obligations supported by pledges of tax increment revenues in selected counties are:

	Tax Increment Debt
Alameda	$ 18,045,990
Contra Costa	50,052,744
Fresno	11,804,514
Los Angeles	1,100,000,000
Marin	5,875,000
Monterey	11,116,807
Orange	127,547,069
Riverside	9,637,742
Sacramento	38,743,753
San Bernardino	53,595,107
San Diego	37,167,000
San Francisco	17,930,000
Santa Clara	88,093,000
Ventura	8,195,434
TOTAL	$ 1,577,806,980

Source: County Auditors for listed counties

Impact on Growth and Planning

Proposition 13 may indirectly provide incentive for unbalanced environmental planning decisions. With sales tax becoming relatively more important as a revenue source for cities and counties, the already keen competition for sales tax base can be expected to intensify. These overriding fiscal concerns will create pressure for cities and counties to pursue commercial and industrial development that generates sales tax revenue at the expense of environmental or other community development interests.

Another likely effect of the initiative on cities is to create a barrier to certain types of development. For instance, it is believed by many that most new residential development does not pay for the service increases that are required. A reduction in property tax revenues would only aggravate this problem. A predictable result could be that cities would avoid the responsibility of extending services to new neighborhoods by denying development that would lead to the demand for new services. In addition, commercial and industrial development which generates little or no sales tax but requires high service levels may no longer be welcomed by local government. This problem could be partially offset by the overall economic stimulus provided through lower taxes to the consumer and a reduction in the cost of doing business in the state.

Distribution of Property Taxes

Proposition 13 requires a completely new method to be devised for distributing property tax revenues. However, it does not provide a formula to be used in allocating the reduced revenues. Put another way, it gives no guidance for determining how much of the loss should be borne by the various units of local government. This is a particularly crucial question for schools, special districts, and other jurisdictions with a high reliance on property tax revenues. The greater the reliance on the property tax, the greater the loss will be. For example:

Average Revenue Losses*

Type of Agency	Ratio of Property Tax Revenue to Total Revenue	Average Loss of Total Revenue under Proposition 13
Fire Protection	79%	45%
Flood Control & Water Conservation	74%	42%
Recreation & Park Districts	64%	37%
School Districts	50%	29%
Counties	35%	20%
Cities	24%	14%

Source: State Controller, 1975-76

* This assumes that all units of government will share proportionately in the 57% statewide reduction in property tax revenues.

Tax collections and distributions currently are determined by tax rates established by the governing bodies of the various taxing jurisdictions. Under Proposition 13 counties would collect the tax and apportion revenues to the districts (and we assume cities and counties) "according to law." Since there is no such law at the present time, the State Legislature will be called upon to enact a law which governs the distribution of property tax revenue by counties. The difficulty that the Legislature will face in drafting a reasonable apportionment schedule for the 58 counties, 417 cities, 1,342 school districts and 4,710 special districts is a problem which is not addressed by the initiative.

Effect on Local Services

Many factors may combine to make local service reductions an inevitable outcome of Proposition 13. While the Legislature may act to replace all or a portion of local revenue losses, it is by no means certain. Obtaining 2/3 Legislative approval on major tax matters is extremely difficult, as shown by the long delay in passing a property tax bill. Faced with the certainty of large revenue losses and the probable delay in replacement funds, if they come at all, many local governments are looking at ways to reduce expenditures. Some examples of proposed budget reductions include:*

City of Los Angeles

(Based on a projected revenue loss of $237.6 million. Proposed cuts developed by assuming an across the board cut of 30% in non-mandatory city functions, excluding airport, water, power and harbor.)

-- Budget reduction of $1,850,000 in Supplies Department including 30 % reduction in vehicle use.

-- $3,800,000 cut in Public Utilities and Transportation budget including 30 percent reductions in postage expenses and telephone use.

-- $68,000,000 reduction in Police Department including layoff of 2,249 police officers.

-- $11,201,000 reduction in Parks and Recreation budget including 90% reduction of all recreational programs.

City of Livermore

(Service reductions based on a total projected revenue loss of $2,004,940.)

-- $144,000 budget reduction by eliminating 10 secretarial and other clerical positions.

-- $200,380 reduction by eliminating 11 of 38 Police Department positions. (Unspecified, not necessarily police officers.)

-- $44,400 reduction by eliminating both of the city's planning positions.

-- Closure of one fire station and reduction in firemen at each of the three remaining stations from 3 to 2.

* *It should be noted that the examples cited have been developed by the respective cities as guidelines only and have not been adopted as formal contingency plans to be inplemented in case Proposition 13 passes.*

Cities with a low overall reliance on property tax revenues will be minimally affected by Proposition 13. Two examples are:

City of Lafayette

— No direct effect on city revenues due to an absence of property tax levies. Some indirect effects are expected as a result of revenue reductions for other local government entities.

City of Chico

— Since 15% of general operations are funded by property taxes, compared to a statewide city average of 24%, city revenues will not be heavily affected. Some budget reductions, as yet undetermined, are expected.

— Special activities, particularly parks, funded solely by property taxes will be affected the most. However, a generally flexible revenue structure makes substitution of other revenues for property taxes a likely alternative.

Other Restrictions on Service Delivery

Proposition 13 may force local governments to become increasingly dependent on state revenue sources to maintain even reduced service levels. In addition to the 2/3 voting requirement needed to raise local taxes, which will make local tax increases more difficult, taxable values are allowed to increase by only 2% a year. As a result, property tax revenues will not keep pace with the effects of inflation on the costs of services, requiring continuing service cuts, constant pressure to increase other local taxes, or greater and greater reliance on outside revenue sources.

Three specific problems related to public employees which will create further restrictions on the ability of cities and other local governments to meet service requirements are:

1) Comprehensive Employment and Training Act (CETA) employees currently provide a low-cost supplement to local government work forces throughout California. Since the program does not allow substitution of CETA employees for permanent employees, a lay off of permanent employees would require all CETA positions in the same department with similar assignments to be laid off as well. (Current interpretation of CETA regulations does not require city-wide removal of similarly assigned CETA employees when regular employees are laid off.) While the actual impact of this problem will vary greatly, depending on the number of CETA employees working in a particular agency or department where lay offs are required, the enormity of the loss is suggested by the projected loss of 5,500 CETA employees in the City of Los Angeles alone.

2) AB 644, recently passed by the State Legislature, requires all local governments in California to "buy-in" to the federal unemployment insurance system. While there are many questions to be answered regarding the implementation and effect of this mandate, it will certainly require costs for administration and benefits not currently being paid by local governments. Employee lay-offs caused by Proposition 13 will obviously increase costs. This mandatory expenditure will, in turn, reduce resources available to fund non-obligatory services.

3) The flexibility needed to achieve maximum utilization of reduced revenues in maintaining service levels will also be restricted by unavoidable expenditures for some employee benefits. City retirement systems provide a current example. Many cities are attempting to increase the soundness of their retirement systems through higher contributions. Unless some alternative to funding the systems from property taxes is found, these important additional contributions would have to be eliminated, leading to chronic underfunding and a decrease in employee benefits. A major difficulty is posed by employees with vested rights in the system who have a strong legal claim against any drop in benefits. The only alternative to this serious conflict is to keep retirement contributions from reduced property taxes high at the expense of services and programs with greater budgetary flexibility.

There are some costs over which local government has no control which are not provided for in Proposition 13. The burden which these extraordinary expenses will place on reduced revenues will create additional pressure to reduce non-mandatory services. Some of these special costs to local government include:

-- Unlike previous tax limitation proposals, Proposition 13 makes no provision for local ability to levy an emergency tax in cases of fire, flood or other disasters.

-- Some local costs, such as electrical power, increase at a rate much greater than inflation. Accordingly, they will annually eat deeper and deeper into revenues restricted by the limits on the tax rate and growth in assessed valuation.

-- Uncontrolled costs often occur, such as special elections, extraordinary court costs and liability payments for insurance settlements.

Effect on Individual Property Owners

While dramatic increases in residential property values have been a major factor in recent taxpayer demands for property tax relief, both business and residential properties will receive substantial tax relief under Proposition 13. This will occur because the initiative limits property taxes to 1% of full cash value "across the board", making no distinction between homes and income producing properties. Since businesses comprise a larger share of the property tax rolls, they will receive a greater portion of the relief. Proponents support this outcome, saying that businesses pay more property taxes and therefore deserve more tax relief. Opponents say that the distribution of tax savings is unfair to homeowners because tremendously inflated home values, which have resulted in rapid property tax increases, have caused an increasing shift of the property tax burden from businesses to homeowners. They argue that this entitles homeowners to a greater share of the relief.

The distribution of property tax relief will be as follows:

1978-79	Dollars of Relief (In Millions)	Percent of Total Relief
Homeowners	2,391	34%
Business	3,940	56%
State of California*	700	10%
	7,031	100%

* Reduced State property tax relief payments due to lower property taxes.
Source: Assembly Committee on Revenue and Taxation.

Savings to individual property owners will vary according to the tax rate which applies to their home or business. A few examples of savings by property owners, large and small, are:

Proposition 13 Tax Relief for Selected Business Properties

Firm	County Location	Approximate Amount* of Tax Reduction
Standard Oil	Contra Costa	$13.1 million
IBM	Santa Clara	$6.1 million
Atlantic Richfield	Los Angeles	$6.5 million

Source: Assembly Committee on Revenue and Taxation

Proposition 13 Tax Relief for Selected Residential Properties

Home Value	Current Tax **	Tax Savings***
$ 30,000	$ 617	$ 352
50,000	1,153	657
80,000	1,958	1,037
200,000	5,117	2,917

* Based on 1977-78 data; uses average rate of $5.00 and assumes "frozen" assessed valuation is equal to actual 1977-78 assessed value.

** Based on 1978-79 average statewide homeowners tax rate of $10.73.

*** Based on 57% average property tax reduction statewide.

Effect on Assessment Practices

Opponents of Proposition 13 voice concerns that passage of the initiative will create the following problems:

1) Inequities between businesses and homeowners would be caused by Proposition 13 because it requires reappraisal to full market value when a property is sold. Homes are sold on a nationwide average once every seven years. Businesses are sold much less often, the largest of which are never sold. This means that an increasingly large proportion of the property tax roll would be composed of homes, causing a steady shift of the tax burden from businesses to residences.

2) Proposition 13 also creates equity problems between homeowners. A newly purchased home will be appraised and taxed at full market value under Proposition 13. An identical property, adjacent to the newly purchased one and receiving the same services, will be paying taxes only on the frozen 1975-76 value plus a 2% a year increase. The severity of the difference in the tax burdens will depend on the purchase dates of the homes.

3) Taxing newly purchased homes at full value also penalizes non-homeowners wishing to purchase their first home and homeowners wishing to change homes. For instance, a person wishing to move to a less expensive home may not be able to afford the higher property taxes that would be incurred by moving to a home that would be valued and taxed at a level inflated far beyond the 1975-76 level to which they were accustomed. Similarly, new homeowners will face a higher tax burden than neighbors who are receiving similar services but who have lived in their homes for several years.

4) Another problem will be faced by persons owning property which declines in value. Under the initiative it appears that, in the future, property may be assessed downward only when the Consumer Price Index, which measures inflation but not necessarily property values, shows a downward trend. Reassessment at full value is also required on newly constructed property. Since new construction is left undefined, judicial interpretation will be necessary to clarify the degree of remodeling or rehabilitation which will qualify for assessment purposes as a newly constructed property.

5) Tax rate limits and assessed valuation limits required by the initiative appear to apply only to county assessed property. This leaves the status of state assessed property in question. Judicial interpretation will likely be required to determine the future treatment of those properties currently assessed by the state.

Proponents of Proposition 13 claim that the assessment freeze, in conjunction with the 1% tax limit, accomplishes the important purpose of assisting people with low and fixed incomes to retain ownership of their homes. They argue that rapidly inflating home values and property taxes should not penalize homeowners who bought their homes anticipating only gradual, manageable increases in value and taxes.

Effect on State and Federal Income Taxes

A reduction in property taxes will reduce the amount which can be deducted from state and federal income taxes. An estimated $295 million to the State and $1.9 billion to the Federal government in increased income taxes in 1978-79 will reduce the savings to homeowners and businesses by approximately 34%.

Assuming a typical homeowner's property tax savings of $745**, the amount of tax savings lost to State and Federal income taxes would be as follows:

Adjusted Gross Income	State Tax Increase Single	State Tax Increase Married	Federal Tax Increase Single	Federal Tax Increase Married	Net Relief Single	Net Relief Married
$ 10,000	$ 0*	$ 0*	$ 179	$ 127	$ 566	$ 618
25,000	60	52	246	194	439	499
50,000	82	82	365	298	298	365

* Under California's 100% low-income tax credit, the taxpayer would pay no state income tax.

Savings to homeowners will be reduced further if the Legislature chooses to replace revenue losses by increasing state sales or income taxes. Homeowners pay approximately 55% of the sales tax and 75% of income taxes as compared with 35% of property taxes. Homeowners and renters together pay 65% of the sales tax and 82% of the income tax. Therefore any shift to these revenue sources constitutes an additional tax shift from businesses onto homeowners and renters.

** $52,500 home paying $1220 in 1977-78 taxes (10.73 average statewide tax rate for homeowners) reassessed downward to 45,000 and taxed at a $5.00 rate.

Impact on Renters

More than 3¼ million, or nearly 45%, of all residences in California are rentals. Proponents of the initiative claim that Proposition 13 is the "only immediate hope left for renters." They argue that property tax savings will be passed on in the form of lower rents. In addition, proponents say that the stimulus to the construction of rental units provided by low property taxes will provide competitive pressure to reduce rents under the laws of supply and demand.

Opponents contend that Proposition 13 contains a serious deficiency because it fails to guarantee any assistance to renters. They believe that renters should not have to rely on the good will of landlords to pass on tax savings to tenants in the form of reduced rents. Opponents also argue that the current and projected housing shortage in California negates the contention that an increase in the supply of rental units will create competitive pressure to reduce rents. Finally, renters are seen by the opponents as the losers under Proposition 13 because they will share in any increase in state sales and income taxes without benefitting from property tax savings.

Balloting Will Have Vast Impact

LA Times 3/13/78

BY GEORGE SKELTON
Times Sacramento Bureau Chief

SACRAMENTO—Californians will be offered a rare opportunity on June 6. For a change, they will be asked to choose how they want their property taxes cut.

Not increased—as so often has been the issue in local elections—but cut.

Two rival property tax relief measures on the June primary election ballot—Propositions 8 and 13—represent the most important pocketbook issues Californians will vote on this year, and likely for many years to come.

Conceivably, they are the most important measures Californians will vote on this year—period.

The outcome will determine the taxes property owners pay in the foreseeable future. Additionally, the ripple effect will set the course for taxing of all personal income, sales and businesses.

The end result will directly affect every taxpayer in the state.

Proposition 8 is the measure which would put into effect the state's recently enacted property tax relief bill, authored by Sen. Peter H. Behr (R-San Rafael) and signed with great fanfare by Gov. Brown.

By itself, all Proposition 8 would do is permit owner-occupied homes to be taxed at a lower rate than commercial property. But this is necessary to implement the Behr bill.

Proposition 13 is the initiative cosponsored by Howard Jarvis of Los Angeles, chairman of a group called United Organization of Taxpayers, and Howard Gann of Sacramento, president of a group called People's Advocate.

SPECIAL REPORT

Between now and the June 6 statewide election, millions of Californians will be deciding how to vote on property tax relief. This special, full-page Times report, compiled by Sacramento Bureau Chief George Skelton, outlines the key differences between the two competing measures and the potential impact of each on California families.

Their initiative petitions were signed by more than 1.2 million registered voters, representing a significant "taxpayers revolt."

Basically, this is what the two measures would do:

Proposition 8 (Behr)—Cut homeowner property taxes by at least 30%, double the renters income tax credit, substantially increase special benefits for senior citizen homeowners and renters, tax homes at a lower rate than commercial property and place tax revenue limits on state and local governments.

The $1.4 billion annual package could be completely financed out of surplus state revenues, with no local or state tax increases necessary, at least for the immediate future.

Proposition 13 (Jarvis)—Cut all property taxes, commercial and personal as well as residential, to roughly 1% of appraised value. The appraisals would be rolled back to fiscal 1975-76 market values and allowed to climb only 2% annually until a property was resold. Then it could be reappraised to reflect the current market. A two-thirds majority of registered voters would be required to authorize a local tax increase, and no property tax could be hiked under any circumstance.

The Jarvis initiative would cut property taxes by an estimated 57% statewide, causing an annual revenue loss for local governments of between $7 billion and $8 billion. The result would be a drastic cut in local government services or a massive state tax increase to make up for the revenue loss, or some combination in between.

If Proposition 13 passes, it becomes law—even if Proposition 8 also is approved. Proposition 13, in effect, would nullify Proposition 8 and the Behr bill.

A roaring debate will continue right up until the balloting on election day over just what effect cutting property taxes 57% would have on government services, such as education, police and fire protection, hospital care, road maintenance, transit and garbage pickups.

Excerpts from arguments to be contained in the ballot pamphlets which will be mailed to voters provide an illustration.

Arguing for Proposition 13, Sen. John V. Briggs (R-Fullerton), an underdog candidate for the Republican gubernatorial nomination, writes:

"Your yes vote will not require a reduction of vital services like police or fire, nor any tax increase . . . More than 15% of all government spending is wasted! Wasted on huge pensions for politicians which sometimes approach $80,000 per year! Wasted on limousines for elected officials or taxpayer paid junkets. Now we have the opportunity to trade waste for property tax relief!"

Arguing against the measure, Mayor Bradley of Los Angeles, former state Controller Houston I. Flournoy and Chairman Gary Sirbu of Califor-

Please Turn to Page 4, Col. 1

Rare Chance for Voters: Two Rival Plans to Cut Property Taxes on Ballot

Continued from First Page

nia Common Cause write:

"Proposition 13 invites economic and governmental chaos in California. It will drastically cut police and fire protection and bankrupt schools unless massive new tax burdens are imposed on California taxpayers. It will take decision-making away from the local level and weaken home rule. (It) is a vague, poorly drafted and incomplete proposal which will seriously damage the economic stability of state and local governments."

In his presumably impartial ballot pamphlet explanation of Proposition 13, Legislative Analyst William G. Hamm concludes:

"In the long run, a major net reduction in property tax revenues and local spending could have significant economic effects on the level of personal income and employment in California. Such changes, in turn, eventually would produce unknown additional state and local fiscal effects."

In essence, what you see is what you get under Proposition 8—homeowner property taxes cut by nearly a third, some additional benefits for renters and senior citizens, clamps on local government spending and no new taxes.

Proposition 13 offers substantially more property tax relief for everybody. But nobody can predict with certainty what the repercussions would be when the other shoe dropped—and local governments lost billions in revenue.

One of America's favorite pastimes is complaining about "fat" and "waste" in government. There is no question it exists. The only real question is how much. One person's fat often tends to be another's "essential service."

And frequently, the politicians who complain the loudest about "waste" are part of the same system that helps produce it.

While Sen. Briggs laments "huge pensions" and "limousines," for instance, he enjoys membership in the legislative pension system, one of the most lucrative in the nation, and drives a fancy state-leased automobile with a free state gasoline credit card.

One bill to raise income and sales taxes has already been introduced.

The likely prospect is that the Democratic-controlled Legislature and the Democratic governor ultimately will come up with a state tax increase to compensate local governments for the lost revenues so those governments can maintain their service to the public.

But it could take months.

Noting that Proposition 13 would require a two-thirds vote of each legislative house to pass a tax increase (now it takes only a simple majority), Assembly Speaker Leo T. McCarthy (D-San Francisco) said:

"I don't believe a tax increase of any sizable amount will pass through the Legislature this year. I think it will be impossible. You go down the list of the members of the Senate and try to see who would vote for a $5 billion or $6 billion tax increase prior to the November election! It's almost as tough in the Assembly.

"Afterward, it may be different."

After the November election, if Proposition 13 is approved in June, "virtually every tax and certainly the main taxes will see an increase," McCarthy predicted. The revenue raising, he added, "will be spread over the broadest base possible."

One tax bill already has been introduced by Senate Finance Committee Chairman Albert S. Rodda (D-Sacramento). While it certainly would be reshaped as it traveled through the Legislature, its basic concept probably would remain.

Basically, the Rodda proposal—which he calls his "doomsday bill"—would raise state taxes by $5.25 billion by hiking the income tax 20% and extending it to some currently exempt low income persons, increasing the sales tax by 1 cent and expanding it to cover personal services such as doctors' visits and haircuts, and boosting bank and corporation taxes by 40%.

Rodda said he will not push his bill until Proposition 13 passes, if it does.

"If we were to enact this before the election, everyone would say we were just using scare tactics and trying to defeat Jarvis. Maybe that would encourage people to vote for Jarvis. We might be counterproductive," Rodda said.

Regardless of which proposition wins, the state may be faced with raising taxes in four or five years.

This is because the $1.4 billion Behr bill would be financed with surplus revenues which ultimately could run dry. And if Proposition 13 passed, the $1.4 billion would be needed to help local governments make up for their lost revenues.

What each taxpayer will have to do is gaze into his own crystal ball and estimate how he personally would be affected by the opposing propositions.

If one accepts the thesis that taxes somehow will be collected to make sure local governments keep providing the services presumably demanded by the public, then most statistics tend to indicate that the vast majority of homeowners would fare better under Proposition 8.

The "winners" under Jarvis would tend to be persons whose property taxes comprise an abnormally high percentage of their total tax burdens—such as real estate speculators and apartment house owners.

The fact Jarvis directs an apartment owners' association in Los Angeles is bound to become a campaign issue.

The biggest "losers" under Proposition 13 would tend to be renters. They would receive no direct benefits but their income taxes likely would increase.

Owners of commercial and industrial property would receive 63% of the tax relief under Proposition 13 because they now shoulder that much of the tax burden. The homeowners' share is only 37%.

Still, several major business leaders recently launched a campaign to defeat the initiative.

"What business, or others, might win in short-term gain they would lose in the long run through offsetting taxes," said Howard P. Allen, executive vice president of Southern California Edison Co.

One little-discussed potential impact of Proposition 13 is that if the state did raise taxes to help finance local government services, the money almost certainly would be delivered with Sacramento strings attached on how to spend it.

"We're not just talking about revenue replacement. We're talking about state intrusion into the prerogatives of local government," said Speaker McCarthy. "How do we write a $7 billion blank check?"

It generally is agreed that Jarvis and Gann, and their 1.2 million signatures, goaded the Legislature and Gov. Brown into finally providing the property tax relief they long had promised voters.

The "taxpayers revolt" has been at least moderately successful. The question taxpayers must decide by June 6 is how they want to claim the victory.

LA Times 3/13/78

HOW MEASURES COMPARE

Los Angeles Times
Metro
LOCAL NEWS
EDITORIAL PAGES
CC PART II †
MONDAY, MARCH 13, 1978

Here is a comparison of what the rival property tax relief ballot propositions offer:

HOMEOWNER PROPERTY TAX RELIEF

Proposition 8 (Behr)—Taxes on all owner-occupied homes would be cut at least 30%. Additional cuts would be forced by imposing limits on the property taxes local governments could collect. This would push the initial tax reduction to an average 31.7% and boost it to a projected 34.8% in three or four years. The immediate cut on a $60,000 home, for example, would be $451. Basically, the state would be picking up the homeowners' share of county welfare and Medi-Cal costs.

Proposition 13 (Jarvis)—Taxes on property would be cut to a base 1% of appraised cash value. That 1% limit could be exceeded, however, if necessary to repay local bonded debts previously approved by the voters. This would raise the limit an average of another ¼%. In future years, the limit gradually would decline to 1%. Statewide, property taxes would be reduced an average of 57%. The cut for a typical $60,000 home would be $735.

COMMERCIAL PROPERTY TAX RELIEF

Proposition 8—Nothing directly.

Proposition 13—The same as for homeowners. All property, commercial as well as residential, would fall under the same base 1%-of-cash-value taxing limit. In fact, the legislative counsel has interpreted the limit to apply to personal property, such as business inventories, and state-assessed property, such as public utilities.

RENTERS

Proposition 8—The income tax credit for renters would be roughly doubled, from the current $37 to $75. Also, welfare recipients for the first time would receive the credit.

Proposition 13—Nothing directly.

SENIOR CITIZEN HOMEOWNERS

Proposition 8—Currently, the state pays a percentage of the property taxes for homeowners over age 62 whose annual incomes are under $12,000. This income limit would be raised to $13,000 and the benefits substantially improved. For example, after the state paid for 30% of the property taxes, as it would for anyone, it would finance 76% of the remainder for senior citizens with incomes of $6,000, 46% for those with $8,000 incomes and 24% for those with $10,000 incomes. Also, surviving spouses under age 62 could continue to receive the special assistance—as long as they did not remarry—if their late spouse had been eligible for it.

Proposition 13—Nothing special.

SENIOR CITIZEN RENTERS

Proposition 8—Currently, renters over age 62 whose annual incomes are under $5,000 are entitled to special assistance. The income ceiling would be raised to $13,000 and the benefits improved. For example, the annual assistance for a person with a $5,000 income would be $220, for a person with an $8,000 income $115, for a person with a $10,000 income $60, and a $13,000 income $25. Surviving spouses under 62 could continue to receive the special assistance as long as they did not remarry.

Proposition 13—Nothing directly.

TAX ASSESSMENTS

Proposition 8—Owner-occupied residential property, for the first time, could be taxed at a lower rate than commercial property.

Proposition 13—Tax rates would remain the same for all property. However, tax assessments would be rolled back to reflect market values in fiscal 1975-76. Assessments then could climb no faster than 2% annually as long as the same owner held the property. Property sold or constructed after March 1, 1975, could be reassessed to reflect the market value at the time of the transaction.

OTHER TAXING LIMITS

Proposition 8—Increases in local property tax revenues would be limited to amounts equal to inflationary rises, now around 6.5% annually, plus new construction. Since property values have been rising faster than 6.5% annually, this would tend to force down tax rates. Also, for the first time, a modest limit would be placed on state revenues. Any revenue increase exceeding the growth in personal income, multiplied by a factor of 1.2, would be earmarked for tax relief or local revenue sharing.

Proposition 13—It would require a two-thirds vote of each legislative house to raise state taxes. No property-related taxes could be imposed. Now, taxes can be increased by a simple majority vote. Additionally, local governments could impose unspecified "special" taxes, as long as they were not property-related, but only if two-thirds of the registered voters agreed.

IMPACT ON OTHER TAXES

Proposition 8—None directly. The $1.4 billion annual program would be financed completely by surplus state revenues for at least four or five years. After that, it could require a tax increase.

Proposition 13—A lot. Local property tax revenues would be chopped by more than $7 billion annually. So either government expenditures, and consequently services, would have to be cut, or the state would have to raise taxes to help make up the difference. One pending proposal would raise $5.25 billion by hiking the state income tax for everyone by 20% and extending it to some currently exempt low-income persons, increasing the sales tax by 1 cent and expanding it to cover personal services, and boosting bank and corporation taxes by 40%.

EFFECTIVE DATES

Both measures would take effect during the fiscal year beginning July 1.

LA Times

TAX IMPACT

3/13/78

The first table which follows shows what an average California homeowner might expect in property tax relief from the Behr (Proposition 8) and Jarvis (Proposition 13) proposals.

The second table indicates roughly what an average home-owning family might expect to pay in increased state income and sales taxes if Proposition 13 is approved and the Legislature passes the Rodda bill to partially compensate for revenue lost by local governments as a result of Proposition 13. (These income tax figures do not take into account the additional increases which indirectly would result from having less property taxes to deduct when filing state and federal income tax returns. They are figured into other tables in this report.)

The third table compares the reduction in income taxes, through higher tax credits, that renters would receive under Proposition 8, with the increase in income taxes they would experience if Proposition 13 were approved and the Rodda bill subsequently passed.

PROPERTY TAX RELIEF UNDER PROPOSITIONS 8 AND 13

Home Value	Current Tax	Prop. 8 Relief	Prop. 13 Relief
$30,000	$617	$196	$329
$40,000	$885	$281	$476
$50,000	$1,153	$365	$615
$60,000	$1,422	$451	$765
$80,000	$1,958	$621	$1,053
$100,000	$2,495	$791	$1,333
$200,000	$5,117	$1,581	$2,705

BASIC STATE INCOME AND SALES TAX INCREASES FOR AVERAGE FAMILY OF FOUR HOMEOWNERS IF BOTH PROP. 13 AND RODDA BILL PASS

Adjusted Gross Income	Income Tax Increase	Sales Tax Increase
$15,000	$36	$104
$25,000	$128	$135
$50,000	$560	$197
$100,000	$1,546	$258

STATE INCOME TAX IMPACT ON AVERAGE SINGLE RENTERS IF PROP. 8 PASSES, OR IF BOTH PROP. 13 AND RODDA BILL PASS

Adjusted Gross Income	Income Tax Reduction Under Prop. 8	Income Tax Increase Under Prop. 13-Rodda
$7,500	$38	$19
$15,000	$38	$131
$25,000	$38	$348
$50,000	$38	$740

NET TAX SAVINGS

The following tables show what net tax reductions would result from the Behr and Jarvis proposals, using for purposes of comparison four separate homeowning couples with two children.

In each case, the net tax reduction would be more under the Behr bill (Proposition 8).

The examples are based on arbitrary home values and adjusted gross incomes (total incomes minus such exclusions as interest on government bonds and workmen's compensation and such costs as employe business expenses and alimony).

Property taxes under the Jarvis initiative would not be reduced exactly to 1% of a home's full cash value, primarily because the initiative allows this 1% limit to be exceeded if necessary to repay local government bonded debts previously approved by voters. Statewide, these bond repayments would raise the limit an average of another 1/4%.

On lower-priced homes, however, the state-financed homeowners property tax exemption would tend to overcompensate for the 1/4% and reduce the tax to below 1% of full cash value.

The anticipated sales and income tax increases resulting from the Jarvis initiative assume passage of the Rodda bill, which would replace $5.25 billion of the projected $7 billion revenue loss local governments would experience as a result of the Jarvis initiative.

On top of the direct income tax hike under the Rodda bill, there would be an additional indirect increase in the income tax for property owners no matter which property tax relief proposal was approved. This is because there would be less property taxes to deduct when computing income tax liability.

Combining both the federal and state income taxes, the total increases would be substantially higher under the Jarvis initiative. But taken alone, the federal income tax hike would be less under the Jarvis initiative than under the Behr bill. This is because state income taxes would increase much more steeply under Jarvis, and taxpayers then would have these and the sales tax hikes to deduct from their federal taxes.

$15,000 ADJUSTED GROSS INCOME WITH $30,000 HOME

	Prop 8 (Behr)	Prop 13 (Jarvis)
Property Taxes		
Current	$617	$617
Proposed	$421	$288
Reduction	$196	$329
Sales Tax Increase	---	$104
Income Tax Increase		
State	$8	$47
Federal	$41	$39
Net Tax Reduction	$147	$139

$25,000 ADJUSTED GROSS INCOME WITH $50,000 HOME

	Prop 8 (Behr)	Prop 13 (Jarvis)
Property Taxes		
Current	$1,153	$1,153
Proposed	$788	$538
Reduction	$365	$615
Sales Tax Increase	---	$135
Income Tax Increase		
State	$26	$169
Federal	$95	$87
Net Tax Reduction	$244	$224

$50,000 ADJUSTED GROSS INCOME WITH $100,000 HOME

	Prop 8 (Behr)	Prop 13 (Jarvis)
Property Taxes		
Current	$2,495	$2,49[illegible]
Proposed	$1,704	$1,1[illegible]
Reduction	$791	$1,333
Sales Tax Increase	---	$197
Income Tax Increase		
State	$87	$71[illegible]
Federal	$317	$19[illegible]
Net Tax Reduction	$387	$234

$100,000 ADJUSTED GROSS INCOME WITH $200,000 HOME

	Prop 8 (Behr)	Prop 13 (Jarvis)
Property Taxes		
Current	$5,117	$5,1[illegible]
Proposed	$3,536	$2,412
Reduction	$1,581	[illegible]
Sales Tax Increase	---	[illegible]
Income Tax Increase		
State	$174	[illegible]
Federal	$816	[illegible]
Net Tax Reduction	$591	[illegible]

IF JARVIS INITIATIVE PASSES LA Times 3/13/78

'Doomsday' Bill a Tax Survival Plan

SACRAMENTO—From the viewpoint of most legislative leaders and the Brown Administration, to assume passage of the Jarvis initiative is to assume the worst.

Preparing for the worst while still fighting to prevent it, Senate Finance Committee Chairman Albert S. Rodda (D-Sacramento) recently introduced what he called "doomsday" legislation to compensate local governments for the property tax revenues they would lose if Proposition 13 passes.

Rodda's bill would raise state income, sales and business taxes by a whopping $5.25 billion annually.

That would make up for about three-fourths of the lost revenue.

"I don't believe anyone, except perhaps a few radical fringe elements, wants to see essential public services curtailed," Rodda said.

"In a way," he added, "I feel as though I'm attempting to fight irrationality with reason. Therefore, I may be living in the world of unreality."

In addition the state could turn over another $2 billion to local governments without raising taxes, at least for about five years. This represents what the state, if it were not for the Jarvis initiative, would otherwise be spending on its own property tax relief programs.

The $2 billion consists of $1.4 billion for the just-passed Behr bill, which needs approval of Proposition 8 and rejection of Proposition 13 for implementation, and $600 million potentially saved through sharp reductions mandated by the Jarvis plan in the state's current homeowner, senior

Sen. Albert Rodda

AP photo

citizen and business inventory tax relief programs.

If the Legislature and Gov. Brown decided to eliminate entirely the present senior citizens assistance and business inventory tax relief programs, the state could save an additional $150 million.

That would bring the total from all these prospective increases in state taxes and savings from scuttled property tax relief programs to $7.4 billion —in the ballpark of what fiscal experts say Proposition 13 would cost local governments.

(The homeowners' property tax exemption is part of the state Constitution and, unlike the senior citizens and business inventory programs, cannot be completely eliminated by the Legislature.

(But Proposition 13, a constitutional amendment, would substantially reduce the program by limiting taxes to 1% of a property's cash value. In effect, this would provide "relief" to state government because it now pays for the property taxes on the first $7,000 of a home's appraised market value. Currently, that averages roughly $190 per house, or 2.7% of the first $7,000 in market value. Under Proposition 13 and its 1% tax limitation, the state payment would be around $70.)

Nobody—neither the governor nor the legislative leaders—knows what the state will do if Proposition 13 passes.

But the Rodda bill is the best indicator available and seems to be pointing in the direction the Legislature ultimately would move—to a broad-based increase in all major state taxes.

The Rodda bill is the only revenue replacement measure before the Legislature. But the veteran senator does not intend to push his bill unless Proposition 13 is approved.

While details certainly would change as the bill moved through the legislative process, its basic broad-base concept probably would not.

This is what Rodda proposes:

Personal Income Tax—Raise it 20% across the board by tacking a 20% surcharge onto the present tax. If your tax ordinarily was $1,000, you would add another $200. The surcharge would raise $1.1 billion.

Additionally, some people not now required to pay income taxes would

Please Turn to Page 4, Col. 1

be. Currently, single persons with adjusted gross earnings under $5,000 and married couples with adjusted gross earnings under $10,000 are excused from paying state income taxes. Those floors would be lowered to $3,250 and $6,500 respectively, bringing in $100 million.

Sales Tax—Boost it by 1 cent, to 7 cents on the dollar. That would raise $1.1 billion.

Additionally, extend the sales tax to "personal services," such as doctor visits, architectural work, auto repairs, plumbing and haircuts. That would raise $2.1 billion.

Bank and Corporation Taxes—Raise them 40%, netting $850 million.

This $5.25 billion in tax revenues would be distributed to local governments through a new "H-P Fund" established by the Rodda bill.

What does H-P stand for?

"Howard and Paul," replied a slightly grinning Rodda, referring to the Proposition 13 cosponsors, Howard Jarvis and Paul Gann.

"I call this my 'crazy' bill," the senator said. "Unfortunately, many people involved in local government are convinced the Jarvis-Gann initiative will pass. They do not look upon the bill as a 'crazy' bill, but as a sane bill which addresses their needs."

SUMMARY OF CITY ATTORNEY'S REPORT

Los Angeles City Attorney Report No. R78-115, January 26, 1978, contains a comprehensive analysis of the Jarvis/Gann Initiative Constitutional Amendment and describes some of the immediate effects on the City should the measure pass. Some of the significant highlights of the Report, authored by Assistant City Attorney James A. Doherty, are set forth below.

1. While quoting a "maximum amount for any ad valorem tax on real property", the Jarvis/Gann proposal does not expressly authorize any level of government to impose the tax.

2. Although the Jarvis/Gann 1% tax is to be "apportioned according to law," there is no such law presently in existence (and the task of drafting and enacting a law to meet the complexities of the 4,600 Los Angeles tax rate code areas alone within the extremely limited time allowed would be staggering).

3. The vested rights of both current and retired employees in the Fire and Police Pension System and the City Employees Retirement System might conceivably be impaired by the City's inability under Jarvis/Gann to finance the systems by special tax levies.

4. By relating "full cash value" to the valuation by "County Assessors", Jarvis/Gann has ignored the valuation function performed by the State Board of Equalization relative to the substantial property interests statewide of public utilities. This could mean that such state-assessed property will either escape property taxes in their entirety or the 1% limitation.

5. Unlike the present provisions of Constitution Article XIII, Section 15, there is no authority to provide for reassessment of taxable property physically damaged or destroyed after the lien date; rather, Jarvis/Gann provides for a 2% inflationary factor across the board which, if applied literally in a year of increase in the Consumer Price Index, would call for an increase in assessed valuation despite the complete destruction of property.

6. Not only is there no express authority for any level of government to impose a tax, Jarvis/Gann also expressly prohibits the state, cities, counties and special districts from imposing ad valorem taxes on real property.

7. A city's authority under Jarvis/Gann to impose special taxes depends upon a two-thirds vote of "the qualified electors", a phrase which is undefined but by reference to the Elections Code definition of "elector" could mean two-thirds of all persons eligible to register, whether registered or not (the further eccentric consequence of which would mean that a special tax could receive the approval of 65% of the "voters" and fail because approval is less than two-thirds of all "qualified electors".)

8. Jarvis/Gann provides that "cities, counties and special districts, by a two-thirds vote of the qualified electors of such district, may impose special taxes on such district . . ." It may reasonably be assumed that the wide variety of taxes, e.g., sales, business, utility users, transient occupancy, etc., imposed by the City are such "special taxes." This provision (Section 4), unlike that relating to the state (Section 3), does not speak in terms of "change" nor imposing a "new" tax, but rather straightforwardly states that a city, county or special district "may not impose" such a special tax. Read literally, this section could mean that as of July 1, 1978, no "special tax" imposed by the City or any other city in the state may be collected until the question has been submitted to the voters and approved by two-thirds of all of the qualified electors of the jurisdiction imposing the tax.

9. For community redevelopment agencies which have borrowed funds on the strength of expected tax increments, there is danger of default on such loans if assessed values are cut back to the 1975-76 Jarvis/Gann level, there are virtually no tax increments and the tax rate is cut to the Jarvis/Gann 1% of full cash value limit.

League of California Cities
California Cities Work Together

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MAY 1 1978
OFFICE OF CITY MANAGER

Sacramento, Ca.
April 14, 1978

TO: MAYORS, COUNCIL MEMBERS, CITY MANAGERS, CITY CLERKS IN NON-MANAGER CITIES AND CITY ATTORNEYS

This enclosed new information relates primarily to Proposition 8 (SB 1, Behr), the property tax relief measure approved by the Legislature which targets relief to the homeowner, senior citizen and renter.

The packet includes:

1. An Analysis of SB 1
2. Dollar Comparison of the Effects of Proposition 8 (SB 1, Behr) and Proposition 13 (Jarvis-Gann) on Individual Taxpayers
3. Comparative Summary of Jarvis-Gann Initiative and Proposition 8 (SB 1, Behr)

In addition, each mayor and city manager is herewith receiving a sample speech on the two propositions which we hope will be helpful in making presentations before service clubs and other organizations. We also have completed a slide presentation with a narrative script or tape recording which is available on a loan basis from all three League offices.

In all cases the information has been carefully developed to be totally factual and unbiased. The responsibility of informing the public as to the effect of these two extremely complex and far-reaching measures is critical to an intelligent vote on June 6. We will be continuing to send you additional information as it is developed.

Attachments

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SB 1 AND PROPOSITION 8

THE POSITIVE PROPERTY TAX RELIEF PROGRAM FOR 1978 AND THE FUTURE

On June 6th the voters of California will be given an opportunity to enact a positive property tax reform/relief program--Proposition 8 and its implementing Act, SB 1 (Behr), Chapter 24, Statutes of 1978. SB 1 will take effect, however, only if Proposition 8 passes and Proposition 13 is defeated or found to be unconstitutional.

The League of California Cities supported SB 1 during its legislative consideration and this paper is intended to provide city officials with information on SB 1 and its implementation.

Summary - Major Elements of SB 1

Proposition 8 is a proposed Constitutional Amendment which would allow for "differential property tax rates" in California--one for "owner occupied dwellings" and another for all "other property". SB 1 is the implementing statute which would utilize this new authority to achieve substantial tax relief for all sectors of our society.

The major elements of SB 1 are:

I. A 30% cut in the 1978-79 property tax bill and in all future property tax bills of homeowners. The state surplus will be used to reimburse local governments for the local revenue loss.

II. A "lid" on local government growth. Future growth in property tax revenues--and therefore the size of local government--will be constrained by property tax revenue limits. Property tax revenue growth will be cut back to a "survival rate", allowing revenues to grow no more than necessary to maintain existing functions and serve new construction. Importantly, however, the property tax revenue limits are reasonable and will allow local government--and especially cities--to survive without drastic consequences.

SB 1 AND PROPOSITION 8

POSITIVE PROPERTY TAX RELIEF FOR 1978 AND THE FUTURE

CONTENTS

The property tax revenue limit provision of SB 1 is the key to long-term control of property taxes. Even where assessments greatly increase throughout a community, property tax growth will be constrained because the tax rate is required to be reduced so that revenue growth stays within the "maximum property tax revenue limits". Where assessments go up throughout a community, SB 1 requires that tax rates be "ratcheted down."

III. Special relief to lower income senior citizen homeowners and renters. SB 1 targets special relief to senior citizens by adding extra benefits to the Senior Citizens' Property Tax Assistance Program, and opening the program to new recipients, including the surviving spouse of a current recipient. This new relief of $95 million annually is in addition to the relief seniors will receive under the revenue limits and the 30% tax cut.

IV. Doubling the existing income tax credit for all renters. The existing $37 income tax credit for renters is raised to $75. The value of this program is $165 million in 1978-79 and increases by about $5 million annually thereafter.

V. State takeover of certain welfare costs. SB 1 provides that the state will assume the homeowner share of the costs for the following welfare programs: Medi-Cal, Supplemental Security Income/State Supplementary Program (SSI/SSP), and Aid to Families with Dependent Children/Boarding Homes and Institutions Programs (AFDC/BHI). This will reduce both immediate and future tax bills of homeowners. Additionally, this will reduce the future property tax burden of all property taxpayers since the state will also be responsible for all future cost increases in these programs.

VI. A lid on state government growth. SB 1 will require the state government to live within a "revenue lid" similar to that required for local agencies. Under these provisions of SB 1, all state revenues in excess of a limited growth index--allowing growth for maintenance of existing services and constrained new needs--will be set aside and designated for future taxpayer relief and other limited uses.

Importantly, SB 1 provides its $1.4 billion of annual property tax relief without either an increase in other taxes or significant local revenue losses which would impair the quality and extent of local public services.

SB 1 offers a balanced, fully-funded, comprehensive property tax relief program. There are no unanswered questions, it will not be tied up in the courts, and the relief will be both immediate and ongoing.

DETAILED ANALYSIS OF SB 1 ELEMENTS

I. 30% Cut in Homeowner Property Taxes.

SB 1 achieves the 30% property tax reduction for homeowners by:

(1) Requiring the state to take over the costs of the homeowner share for certain welfare programs and requiring the county to reduce the homeowner property tax rate by the amount equivalent to the cost of these programs,

(2) Reducing individual homeowner property taxes by whatever additional dollar amount necessary to provide a 30% reduction in the total property tax bill.

The tax rates of cities will not be affected directly by these provisions, but the county rates will be reduced as noted above.

Chart I

Homeowner Property Tax Relief

Market Value	Prop. Tax Current Law	Prop. Tax SB 1	SB 1 Prop. Tax Savings
$ 30,000	$ 617	$ 421	$ 196
50,000	1,153	788	365
80,000	1,958	1,337	621
100,000	2,495	1,704	791

Note: In addition, future property taxes will be constrained further through application of the local government property tax revenue limits and state assumption of certain welfare costs. Also, because of the special provisions for senior citizens, the relief to many of them will be even greater.

The state will reimburse local government for the revenue loss under the 30% reduction program. This reimbursement is financed by the state surplus and will come back to counties for distribution to the taxing entities in the same fashion as the loss due to the homeowner property tax exemption program is presently reimbursed. Thus, for cities this provision will not change revenues received--they will simply come from the state surplus rather than the homeowner. (Note, however, that the property tax revenue limit provisions of SB 1 will have a substantial impact on the growth in future property tax revenues of cities--see below.)

II. Local Government Property Tax Revenue Limits

SB 1 prohibits local agencies from collecting property tax revenues above specified property tax revenue limits. These revenue limits are effectuated by the "maximum property tax rate" provisions of the Act (Revenue and Taxation Code Section 2261).

a. Proposition 8. Prior to continuing the discussion of the property tax revenue limit provisions of SB 1, it is necessary to review the elements of Proposition 8 on the June 6 ballot. The revenue limits of SB 1 are based on the "differential tax rate"

authority contained in Proposition 8. Passage of this Constitutional Amendment will authorize the establishment of separate tax rates for (1) "owner-occupied dwellings" and (2) all "other properties". With the passage of Proposition 8--which is necessary for SB 1 to become operational--cities will have two different tax rates. One for "owner occupied dwellings" and another for "other property." There will be a "maximum property tax rate" (MPTR) calculated for each class of property separately.

Proposition 8 does two things:

(1) Authorizes a lower tax rate for "owner occupied dwellings" than for "other property."
(2) Prohibits the tax rate for "other property" to be raised as a result of lowering the rate for "owner occupied dwellings."

Obviously, the first point allows targeted relief to homeowners and the second point prohibits unfair treatment of business (other property) to achieve homeowner relief. The maximum property tax rate provisions of SB 1 are drafted in such a way as to protect "other property" from assuming a greater burden as a result of cuts in the "owner occupied" rate.

b. Maximum Rates. Procedurally, revenues are limited by the imposition of maximum property tax rates that a local agency may levy.

Each local agency will levy two tax rates: one on owner-occupied property (homeowners) and one on nonowner-occupied (businesses). In no event may the "homeowner" rate exceed the "business" rate.

These limits are designed to drive tax rates down in areas experiencing increases in property tax assessments which would cause property tax revenues to grow in excess of what the Legislature has determined to be a reasonable growth rate. The higher the assessments in a given area, the greater the reductions in the tax rates levied by the local agencies in that area.

An agency may levy less than its maximum rate. Voters may also approve increases in the maximum tax rate, but only if the rates applicable to each of the two classes of property are raised by equal cents per $100 of assessed value.

Local agencies may continue to levy certain non-voted tax rate increases for emergencies, as well as permissive overrides contained in existing law (see Section c below). Such rates will be applicable to each of the two classes of property in an equal number of cents per $100 of assessed value.

Under the "maximum property tax rate" (MPTR) provisions of SB 1 cities, counties and special districts (schools are already constrained by similar limits) may not levy a property tax rate which would produce more revenue than the revenue which would have been produced in the prior year--adjusted for inflation--if the "maximum property tax rate" (MPTR) had been levied during that year.

That is, the maximum property tax rate (MPTR) will be calculated based upon the revenue which last year's MPTR would have raised if applied to properties common to both rolls--adjusted by the percentage increase in the GNP deflator for 1978-79 and 1979-80 and by the "California Local Agency Price Deflator" in future years (see Section d below).

Translation:

1. The "maximum property tax rate" (MPTR) tells a city what rate it may levy to stay within the property tax revenue limits mandated under SB 1. There are two MPTRs--one for owner occupied and one for all other property.

2. If a city chooses not to levy the maximum rate (MPTR) that authority is not lost. The MPTR is used for determining next year's MPTR--even if the actual rate levied was less than the MPTR.

3. The current year MPTR is based upon the revenues which would have been received in the prior year if the prior year's MPTR hadbeen levied.

4. The current year's MPTR, therefore, is that rate which would produce the same amount of revenue--increased by inflation--if applied to property on last year's tax roll as last year's MPTR would have produced. Thus, if the property assessment has risen greatly--producing more new revenue than allowed by the inflation factor--the MPTR would go down. (These computations have the effect of excluding new construction and annexation areas from the revenue limit calculations. For technical reasons, both redevelopment properties and state assessed properties are also excluded from these calculations.)

c. Exclusions from the Revenue Limits. SB 1 excludes the following items from its revenue limits:

1. Any property tax rate levied pursuant to Revenue and Taxation Code Sections 2270-2280 (bonded indebtedness, voter approved retirement plans, federal mandates--including unemployment insurance--mandates from the courts or initiatives, emergencies, elections, etc.);

2. Any property tax rate levied pursuant to city charter procedure ordinance for bonds supporting specified maintenance and operation improvements (see Revenue and Taxation Code Section 2260 for further information);

3. Any property tax rate levied on behalf of a county superintendent of schools.

d. The GNP Deflator. The inflation factor utilized for computation of the revenue limits, and therefore the MPTR, is the "GNP Deflator". In general, SB 1 prohibits the amount of property taxes collected from "common property" (meaning the assessed valuation of property common to both the current and prior years' secured tax rolls) from exceeding the prior year's amount by more than the percentage growth in the "Gross National Product (GNP) Implicit Price Deflator for State and Local Government Purchases of Goods and Services" for fiscal years 1978-79 and 1979-80. Effective with 1980-81, a California Local Agency Price Deflator, to be developed by the California Department of Industrial Relations, in cooperation with a statewide committee on which the League is represented, will be used to measure inflationary increases.

The GNP deflator index is published quarterly by the U. S. Department of Commerce, and measures price changes in goods purchased by state and local government. (By contrast, the Consumer Price Index (CPI) measures inflation in consumer goods.) The GNP deflator has averaged about 6.5% over the past 10 years. Changes between first quarter figures are used for these computations.

If the GNP deflator change is less than the change in the CPI, then the CPI change may be used in calculating the revenue limits and the MPTRs.

For detailed information and a step-by-step computational procedure for finding the maximum property tax rates, see the League's Budget Bulletin for 1978 or call the State Controller's office at (916) 445-5153.

For historical GNP deflator statistics, see Appendix I.

e. Base Year Revenue Computations. Base year revenues used for the purpose of determining the allowed revenue growth in the first year (1978-79) may be 1976-77 rather than 1977-78, if the agency's property tax revenues in 1977-78 were actually less than in 1976-77. Each year thereafter, the property tax limitation will be based on revenues which would have been produced in the prior year if the MPTR had been levied.

f. New Construction. Due to the way the maximum property tax rate provisions have been drafted, the formula in SB 1 does allow for property tax revenue growth due to new construction (of any property) or substantial improvements (only to non-owner occupied property). Increases in the tax base due to such new construction and substantial improvements are excluded from common property in the year they are added, but become part of the common property in all future years. Thus, the property tax revenue from this source is basically in addition to that allowed by the revenue limit. This was done to allow a local agency to receive revenues necessary to serve new development and to avoid adverse impacts upon those areas of the state which are growing most rapidly.

g. Future Impact of Revenue Limits. The future impact of the SB 1 revenue limits on local agencies may be seen in the following chart:

Chart II

Local Government Growth Containment

(In Millions)

	1978-79	1979-80	1980-81	1981-82
Required Reduction in Future Growth	$90	$235	$414	$639

(Based upon past growth trends)

Source: Assembly Revenue and Taxation Committee, State Department of Finance Data.

There is no state reimbursement for this loss in future revenues. This is the aspect of SB 1 which will require local government to grow at a slower rate than it has in the past.

As noted elsewhere in this analysis, an important part of the revenue limit computation mechanism is that voter approved debt such as general obligation bonds, retirement costs, and other similar debt is covered by the permissive override provisions of existing law and is therefore excluded from revenues for purposes of computing the revenue limit. These are the same exemptions which are in current law for purposes of the SB 90 rate limit computations.

III. Additional Tax Relief for Senior Citizens

SB 1 targets special tax relief to lower income senior homeowners and renters by liberalizing eligibility requirements and augmenting the asssistance provided under the existing Senior Citizens' Property Tax Assistance (SCPTA) program. The value of this expanded relief program--above and beyond all the other tax relief provisions of SB 1 which also apply to the senior citizen--is approximately $95 million per year.

By enriching the relief available, SB 1 extends the idea that property tax relief should be targeted specifically to senior citizens on low or fixed incomes, to prevent such persons from being taxed out of their homes.

Although senior homeowners now have the option of postponing property taxes altogether (AB 1070, 1977), by enriching the senior assistance program, the state is providing a more viable option to seniors who need significant tax relief, but who may be reluctant to allow a lien on their home under the postponement program.

Specifically, SB 1:

1. Eliminates the present $8,500 restriction on assessed value that limits the taxes on which relief is presently given to senior homeowners, and substitutes in its place a cap of $1,500 on the actual dollar relief that may be received.

2. Increases the income limit from $12,000 for homeowners and from $5,000 for renters to $13,000 for both, and raises the reimbursement percentages throughout the relief schedule.

3. Increases the "property tax equivalent" for renters to $250.

4. Extends eligibility to otherwise qualified homeowners and renters under 62 who are surviving spouses of a claimant who was receiving assistance.

IV. Renter Relief Doubled

SB 1 increases the existing refundable income tax credit available to renters from $37 to $75. In addition, it extends this credit to recipients of public assistance.

The same dramatic increases in assessed valuation that impact homeowners directly also hit the renter indirectly, in the form of increased rent. The extent to which this tax burden is passed on varies according to type of accommodation and nature of the housing market.

Article XIII, Section 3(k) of the California Constitution requires renters' relief "equal" to any future increase in the homeowners' exemption. Although SB 1 does not increase the homeowners' exemption, it does seek to provide renters' relief in the spirit of the Constitution.

By increasing the renters' credit to $75, renters will receive a 30% reduction in the estimated payments of property taxes which are paid indirectly through their rent (based on the $250 amount the state has established as the property tax equivalent for the Senior Citizens Renters Assistance program).

Many proposals for property tax relief did not guarantee relief to renters. This is one of the most important provisions of SB 1. About 45% of the state population rent their dwellings and SB 1 provides them with property tax relief roughly equivalent to that provided for the homeowner. The cost of this state funded aspect of SB 1 is $165 million in 1978-79 and grows at about $5 million/year in the future.

V. State Takeover of Certain Welfare Costs

State assumption of the homeowner share of the costs for the Medi-Cal, SSI/SSP, and AFDC programs both assist in achieving the 30% property tax reduction and in providing future property tax relief.

The welfare programs which the state will take off of the homeowners' property tax bill under SB 1 increase in cost at a rapid rate. Under existing law the county tax rate goes up annually as a result of these cost increases. SB 1 provides that the state will fund future cost increases and therefore keep future property tax rates lower for "all other property" in addition to completely taking these costs off of the homeowners' property tax bill.

VI. State Revenue Limitation

SB 1 imposes a limitation on state revenues which may be expended for general purposes under the present budgetary process.

"State revenues" will include all state General Fund and special fund revenues and exclude federal revenue sharing and miscellaneous professional and other fees. The state limit covers approximately 95% of all state revenues, compared to 30-40% for the local revenue limit--even less for cities.

This is one of the aspects of SB 1 for which the League lobbied heavily. It seemed unfair to place limits upon local government revenues if the state was not asked to operate within similar constraints.

The state revenue limit is more liberal than the local limit, but, as noted above, it covers more of the state's resources.

Under the limit, state revenues may grow no more than a percentage equal to the percentage increase in the personal income of California residents, inflated by an "elasticity factor" of 1.2 (the elasticity factor gives the state an additional growth cushion beyond personal income growth).

Increases in total revenues above the permitted maximum will be required to be deposited in an Excess Revenue Fund, for use:

1. To reduce state taxes,
2. To pay for additional state-funded property tax relief programs,
3. For emergency purposes if the Governor declares an emergency and such emergency is concurred in by the Legislature by concurrent resolution,
4. To maintain a "prudent" surplus not to exceed 3% of total revenues, or
5. To fund a revenue sharing program with local government.

Upon a 2/3rds vote of both houses and concurrence by the Governor, revenues in the Excess Revenue Fund may be used for a purpose other than (1) to (5) above; such reasons shall be explained in the legislative journals.

MISCELLANEOUS ISSUES

The effect of Proposition 8 and SB 1 upon cities will be very substantial. The following listing covers the most frequently raised points:

1. Tax Rates

   a. Two tax rates--"owner occupied" rate and "other property" rate.

   b. Maximum property tax rates for both groups of property.

   c. Other property may not be used to fund rate reductions for owner occupied.

   d. Existing exemptions from SB 90 rate limits are also exempt from SB 1 revenue limits.

2. Computation of Maximum Rates

   a. Property tax revenue is allowed to grow at a rate equal to the percentage change in the Gross National Product Deflator plus property tax revenues from new construction or annexations.

   b. SB 1 requires the county auditor to determine the maximum property tax rates for each city and special district. Cities, however, must be able to determine these figures also for budget projection purposes and to check the county's computations.

3. Future Revenue Loss

   Cities with property tax revenue growth in excess of about 8% per year will experience a decline in this revenue source in the future. The impact of the revenue limit will be to hold property tax revenue growth to about this 8% level--exclusive of those items which are outside the limit. (See Chart II for estimate of loss in future growth.)

4. Impact Upon Redevelopment

   a. The impact upon the redevelopment activities of cities should be minimal. What impact there is will come in two forms. First, the slower future growth in property tax rates--or the decline in rates--due to the revenue limits will affect the tax increment, but not drastically. Secondly, where there is a high proportion of owner occupied property within a redevelopment area, the property tax rate reduction for welfare buy-out will have some impact--again not drastic.

   b. For technical reasons, redevelopment areas are excluded from the computations of the maximum property tax rates.

5. Other Local Revenues

   SB 1 will not control local revenue sources other than property taxes.

6. School Districts

   School districts are already covered by property tax revenue limits and therefore are not covered by SB 1. However, the school tax rate is part of the combined rate which is used for computing the 30% property tax reduction. The total property tax bill, including schools, will be reduced by 30%.

7. Preparation of Split Roll -- Differential Tax Rates Roll

SB 1 requires the county assessor to prepare the two-part property tax roll: "owner-occupied" and "other property". The county is required to give the city, where requested, an estimate of the total assessed valuation of all owner-occupied dwellings and the total assessed valuation of all properties other than owner-occupied dwellings. These estimates must be provided not later than May 15th.

8. Implementation

SB 1 is repealed unless both Proposition 8 passes and Proposition 13 (Jarvis/Gann) is defeated or found unconstitutional.

APPENDIX I

GNP IMPLICIT PRICE DEFLATOR FOR
STATE AND LOCAL GOVERNMENTS

1972 = 100

Year	First Quarter Index	% Increase Over Previous Year	For Comparative Purposes, Percent Increase in Calif. CPI (March-March)
1968	75.3		
1969	80.0	6.24	4.66
1970	85.7	7.13	4.82
1971	92.6	8.06	4.07
1972	97.8	5.60	3.40
1973	104.8	7.16	4.68
1974	113.2	8.06	8.63
1975	126.3	11.57	12.28
1976	134.9	6.81	5.98
1977	143.4	6.30	7.23
1978	*		

*Estimate available after April 15, 1978; telephone U.S. Department of Commerce, Bureau of Economic Analysis, (202) 523-0725; information will also be available on the same date through any of the League's three offices.

Example of how to compute percentage growth:

Step 1:

143.4	- 1st quarter 1977
-134.9	- 1st quarter 1976
8.5	- Points difference

Step 2:

8.5 divided by 134.9 = .0630

Step 3:

.0630 x 100 = 6.30% increase

Note: SB 1 includes a provision which allows use of the CPI figure if it is greater than the GNP deflator (Revenue and Taxation Code Section 2261(c)).

APPENDIX II

SB 1 IMPLEMENTATION CALENDAR

DATE AND ACTIONS OF GREATEST INTEREST TO CITIES

Date	Action
March 3, 1978	SB 1 signed into law by Governor. Certain provisions of SB 1 took effect immediately. Under these provisions, the county assessor is required to immediately begin to determine properties common to both current and prior rolls, as required by the revenue and rate limit provisions of the bill. In addition, the assessor is required to immediately begin the separation and identification of those properties which will be subject to tax as owner-occupied dwellings if Proposition 8 is approved.
May 15, 1978	Assessor to furnish assessed value estimates to local jurisdictions which have requested this information by February 20th. Said estimates are required to include the following: (a) the assessed value of owner-occupied dwellings which will be common to both the current and next fiscal year's secured roll, and (b) the assessed value of all property, other than owner-occupied dwellings, which will be common to both these rolls. In addition, these estimates are required to include the total assessed valuation of all owner-occupied dwellings and the total assessed valuation of all properties, other than owner-occupied dwellings, on the assessment roll. (Government Code 27421)
June 6, 1978	Statewide Election. SB 1 self-destructs on June 7, 1978, unless Proposition 8 passes <u>and</u> Proposition 13 is defeated or found unconstitutional.
July 3, 1978	Assessor to complete local assessment roll and deliver to county auditor. (Revenue and Taxation Code Sections 616 and 617)
July 18, 1978	County auditor to compute maximum property tax rates for all local agencies and transmit said rates to all local agencies by this date. SB 1 requires that such action be taken within 15 days of the completion of the local roll. (Clean-up legislation may change this to 30 days.) (Revenue and Taxation Code Section 2261(h))
August 15, 1978	County auditor to report assessed valuations to the State Board of Equalization and the State Controller. (Revenue and Taxation Code Sections 1647-1649)
September 1, 1978	City council must have fixed city tax rate before this date (Government Code Section 51511)

September 18, 1978	Local agencies to report the tax rate for the current year to the State Controller. (Revenue and Taxation Code Section 2325)
October 16, 1978	County auditor to report to State Controller the tax rates, assessed valuations, and taxes levied for cities and districts within the county. (Government Code Section 29109)
November 1, 1978	Mail property tax bills to property owners. (Revenue and Taxation Code Section 2610.5)

8 Owner Occupied Dwellings—Tax Rate

Official Title and Summary Prepared by the Attorney General

OWNER OCCUPIED DWELLINGS—TAX RATE—LEGISLATIVE CONSTITUTIONAL AMENDMENT. Adds Constitution, article XIII, section 9.5, to give Legislature power to provide for taxation of owner occupied dwellings, as defined by Legislature, or any fraction of value thereof, at rate lower than that levied on other property. Tax rate levied on other property cannot be increased as result of lowering tax rate levied on owner occupied dwellings. Financial impact: Depends on legislative action. Could result in reduction in local revenues.

FINAL VOTE CAST BY LEGISLATURE ON SCA 6 (PROPOSITION 8)

Assembly—	Ayes, 54	Senate—	Ayes, 27
	Noes, 15		Noes, 12

Analysis by Legislative Analyst

Background:

The Constitution generally requires all property, including homes, apartments, commercial and industrial buildings, to be assessed for tax purposes at the same percentage of market value.

Generally, all property in the same taxing area is taxed at the same rate.

Proposal:

This proposition would give the Legislature the authority to allow local governments to tax owner-occupied dwellings at lower property tax rates than the rates that apply to all other types of property. The proposition does not say how much lower these tax rates on owner-occupied dwellings could be. However, the proposition prohibits an increase in the tax rates on other property as a result of lowering the tax rates on owner-occupied dwellings.

Fiscal Effect:

This proposition only authorizes the Legislature to act. It does not require it to do so. Consequently, the proposition, by itself, would have no direct fiscal effect on either state or local government.

If this proposition is approved by the voters and the Legislature acts to permit lower tax rates on owner-occupied dwellings, the net effect on local revenues would be either no change, or a reduction. A reduction would probably occur if there were a big difference between the tax rates on owner-occupied dwellings and the tax rates on all other property.

Text of Proposed Law

This amendment proposed by Senate Constitutional Amendment No. 6 (Statutes of 1977, Resolution Chapter 85) expressly adds a section to the Constitution; therefore, provisions proposed to be added are printed in *italic type* to indicate that they are new.

PROPOSED AMENDMENT TO ARTICLE XIII

SEC. 9.5. The Legislature may provide for the taxation of owner occupied dwellings, as defined by the Legislature, or any fraction of the value thereof, at a rate lower than that levied on other property. In no event may the tax rate levied on other property be increased as a result of lowering the tax rate levied on owner occupied dwellings.

APPENDIX IV

COMPARISON OF THE EFFECTS OF PROPOSITION 8 (BEHR) AND PROPOSITION 13 (JARVIS-GANN) ON INDIVIDUAL TAXPAYERS

The following charts compare the effects of Propositions 8 and 13 on individual taxpayers. Specifically, the charts look at the change in taxes for average homeowners and renters, both single and married (family of four) at various income levels. Under each scenario it is assumed that Proposition 8 will require no new taxes. In two cases it is assumed that the State Legislature will increase taxes to replace 50% ($3.5 billion) of the $7 billion property tax revenue loss to local government caused by Proposition 13. This might be accomplished, as indicated in the comparisons, by increasing the sales tax from 6¢ to 9½¢ (a 58% increase), or by tacking a 64% surcharge on to all state income tax bills. A third comparison is made under the assumption that no new taxes will be levied in any case. In most cases, as indicated in the charts, property tax savings will automatically result in higher state and federal income taxes since taxpayers will have less property tax payments to deduct from income taxes.

The assumptions used in developing the figures used in the comparisons are as follows:

1. 57% average property tax savings under Proposition 13.
2. 31.7% average property tax savings under Proposition 8.
3. $10.73 average statewide homeowners property tax rate for 1978-79.
4. $5.00 average statewide homeowners property tax rate if Proposition 13 passes.
5. 12% per year average increase in residential assessed valuations since 1975-76.
6. Married couples filing joint tax returns.
7. All income, for federal tax purposes, is assumed to be "earned income."

Following the summary is an additional chart which compares the effects of Proposition 8 and Proposition 13 on the property taxes of new and existing businesses.

SUMMARY

Homeowner - Family of Four

		64% State Income Tax Surcharge		58% Sales Increase (from 6¢ to 9½¢)		No New Taxes	
Income	Home Value	Prop. 8	Prop. 13	Prop. 8	Prop. 13	Prop. 8	Prop. 13
		NET TAX REDUCTION					
$ 10,000	$ 20,000	$ 84	$165	$ 84	$ 40	$ 84	$ 165
15,000	30,000	147	157	147	126	147	261
20,000	50,000	257	274	257	314	257	463
30,000	80,000	388	293	388	581	388	698
50,000	100,000	366	260	366	534	366	658
100,000	200,000	722	+621*	722	1,508	722	1,298

* (+) indicates net tax increase; all other figures are tax reductions.

Single Renter

Income	Prop. 8	64% State Income Tax Surcharge Prop. 13	Prop. 8	58% Sales Tax Increase (from 6¢ to 9½¢) Prop. 13	Prop. 8	No New Taxe[s] Prop. 13
	NET TAX REDUCTION					
$ 6,000	$ 32	--	$ 32	$ +95*	$ 32	--
10,000	30	--	30	+111*	30	--
15,000	28	+304*	28	+113*	28	--

Married Renter - Family of Four

Income	NET TAX REDUCTION					
$15,000	$ 30	$+118*	$ 30	$+138*	$ 30	--
25,000	27	+336*	27	+149*	27	--

* (+) indicates net tax increase; all other figures are tax reductions.

Comparison of Property Taxes for New Businesses and Established Businesses

In Selected Years

PROPOSITION 8 VS. PROPOSITION 13

	Prop. 8 New Business Tax as % of Existing Business Tax*	Prop. 13 New Business Tax as % of Existing Business Tax*
1979-80	100%	136%
1981-82	100%	156%
1984-85	100%	193%
1987-88	100%	237%

*Assumptions:

1. 9.3% annual growth in business property values
2. Constant $10.00 tax rate per $100 of assessed valuation under Prop. 8
3. Existing businesses were in operation prior to July 1, 1978, the effective date of Proposition 13.

Homeowner - Family of Four

$10,000 Adjusted Gross Income With $20,000 Home

	64% State Income Tax Surcharge		58% Sales Tax Increase (from 6¢ to 9½¢)		No New Taxes	
	Prop. 8	Prop. 13	Prop. 8	Prop. 13	Prop. 8	Prop. 13
Property Taxes						
Current	$ 349	$ 349	$ 349	$ 349	$ 349	$ 349
Proposed	238	150	238	150	238	150
Reduction	101	199	101	199	101	199
Sales Tax Increase	---	---	---	151	---	---
Income Tax Increase						
State	---	---	---	---	---	---
Federal	17	34	17	8	17	34
Net Tax Reduction	84	165	84	40	84	165

$15,000 Adjusted Gross Income With $30,000 Home

	Prop. 8	Prop. 13	Prop. 8	Prop. 13	Prop. 8	Prop. 13
Property Taxes						
Current	$ 617	$ 617	$ 617	$ 617	$ 617	$ 617
Proposed	421	265	421	265	421	265
Reduction	196	352	196	352	196	352
Sales Tax Increase	---	---	---	184	---	---
Income Tax Increase						
State	8	151	8	7	8	14
Federal	41	44	41	35	41	74
Net Tax Reduction	147	157	147	126	147	261

$20,000 Adjusted Gross Income With $50,000 Home

	Prop. 8	Prop. 13	Prop. 8	Prop. 13	Prop. 8	Prop. 13
Property Taxes						
Current	$1,153	$1,153	$1,153	$1,153	$1,153	$1,153
Proposed	788	496	788	496	788	496
Reduction	365	657	365	657	365	657
Sales Tax Increase	---	---	---	211	---	---
Income Tax Increase						
State	22	294	22	27	22	39
Federal	86	91	86	105	86	155
Net Tax Reduction	257	274	257	314	257	463

Homeowner - Family of Four

	64% State Income Tax Surcharge		58% Sales Tax Increase (from 6¢ to 9½¢)		No New Taxes	
	Prop. 8	Prop. 13	Prop. 8	Prop. 13	Prop. 8	Prop. 13
$30,000 Adjusted Gross Income With $80,000 Home						
Property Taxes						
Current	$1,958	$1,958	$1,958	$1,958	$1,958	$1,958
Proposed	1,337	842	1,337	842	1,337	842
Reduction	621	1,116	621	1,116	621	1,116
Sales Tax Increase	---	---	---	239	---	---
Income Tax Increase						
State	50	685	50	70	50	89
Federal	183	138	183	226	183	329
Net Tax Reduction	388	293	388	581	388	698
$50,000 Adjusted Gross Income With $100,000 Home						
Property Taxes						
Current	$2,495	$2,495	$2,495	$2,495	$2,495	$2,495
Proposed	1,704	1,073	1,704	1,073	1,704	1,073
Reduction	791	1,422	791	1,422	791	1,422
Sales Tax Increase	---	---	---	265	---	---
Income Tax Increase						
State	87	922	87	127	87	156
Federal	338	240	338	492	338	608
Net Tax Reduction	366	260	366	534	366	658
$100,000 Adjusted Gross Income With $200,000 Home						
Property Taxes						
Current	$5,117	$5,117	$5,117	$5,117	$5,117	$5,117
Proposed	3,495	2,200	3,495	2,200	3,495	2,200
Reduction	1,622	2,917	1,622	2,917	1,622	2,917
Sales Tax Increase	---	---	---	379	---	---
Income Tax Increase						
State	178	4,160	178	279	178	321
Federal	722	-622 (increased deduction on S.I.T.)	722	1,130	722	1,298
Net Tax Reduction	722	+621 (tax increase)	722	1508	722	1298

Single Renter

	64% State Income Tax Surcharge		58% Sales Tax Increase (from 6¢ to 9½¢)		No New Taxes	
	Prop. 8	Prop. 13	Prop. 8	Prop. 13	Prop. 8	Prop. 13
$6,000 Adjusted Gross Income						
State Income Tax Reduction (Increase Renter's Credit from $37 to $75.)	$ 38	---	$ 38	---	$ 38	---
Sales Tax Increase	---	---	---	114	---	---
Income Tax Increase						
State	---	---	---	---	---	---
Federal	6	---	6	-19	6	---
Net Tax Change	-32	---	-32	+95	-32	---
$10,000 Adjusted Gross Income						
State Income Tax Reduction	$ 38	---	$ 38	---	$ 38	---
Sales Tax Increase	---	---	---	140	---	---
Income Tax Increase						
State	---	---	---	---	---	---
Federal	8	---	8	-29	8	0
Net Tax Change	-30	---	-30	+111	-30	---
$15,000 Adjusted Gross Income						
State Income Tax Reduction	$ 38	---	$ 38	---	$ 38	---
Sales Tax Increase	---	---	---	170	---	---
Income Tax Increase						
State	---	$ 406	---	-15	---	---
Federal	10	-102	10	-42	10	---
Net Tax Change	-28	+304	-28	+113	-28	---

Married Renter - Family of Four

	64% State Income Tax Surcharge		58% Sales Tax Increase (from 6¢ to 9½¢)		No New Taxes	
$15,000 Adjusted Gross Income						
State Income Tax Reduction	$ 38	---	$ 38	---	$ 38	---
Sales Tax Increase	---	---	---	184	---	---
Income Tax Increase						
State	---	151	---	-7	---	---
Federal	8	-33	8	-39	8	---
Net Tax Change	-30	+118	-30	+138	-30	---
$25,000 Adjusted Gross Income						
State Income Tax Reduction	$ 38	---	$ 38	---	$ 38	---
Sales Tax Increase	---	---	---	223	---	---
Income Tax Increase						
State	---	466	---	-16	---	---
Federal	11	-130	11	-58	11	---
Net Tax Change	-27	+336	-27	+149	-27	---

THE JARVIS-GANN INITIATIVE AND SB 1:

A Comparative Summary

	Jarvis-Gann	SB 1
Property tax relief to homeowners	Statewide estimated average relief of 57% ($2.3 billion).	Guaranteed relief of 30% ($1.2 billion).
Overall property tax relief to homeowners	Existing homeowner exemption will be continued but dollar benefits will be reduced by 57%. Total homeowner relief including exemption will equal $2.65 billion.	Existing homeowner exemption will be continued at current level. Total homeowner relief including exemption will equal $1.96 billion.
Property tax relief to renters	None.	Renters income tax credit increased from $37 to $75 per year. ($165 million)
Senior citizens tax relief	No special treatment. Same as all property owners; no relief for renters.	Additional relief for homeowner and renters over 62 years with incomes up to $13,000 ($82 million).
Property tax relief to business	Statewide estimated average of 57% ($4 billion).	Some relief will result from property tax revenue limits.
Existing State surplus	Not mentioned.	Used to fund residential property tax relief.
Long term, impact on state surplus	State costs or revenue losses — $142 million; savings from reduced property tax relief payments — $1 billion; new revenue from increased state income tax payments — $295 million. Net savings or new revenue — $853 million per year in addition to existing and projected surplus.	Existing and projected state surplus used to finance residential property tax relief. Surplus expected to be depleted within 5 years.
Local property tax revenue limit	1% of full cash value; maximum 2% AV growth per year; reassessment when property changes ownership.	Revenue growth limited to percentage increase in cost index (GNP price deflator) plus aditional revenue derived from new construction.
Replacement revenue	None; available sources and increases necessary to make up lost revenue: — sales tax — 100% increase or — income tax — 125% increase or — bank and corporation tax — 333% increase.	Local revenue loss reimbursed from existing and projected state surplus. No additional tax increase necessary.
State revenue limit	None.	State personal income growth times 1.2.
Financial impact on Federal government	New revenue from increased federal income tax payments — $2 billion; reduced revenue sharing allocations to California governments — $67 million. Net savings or new revenue — $2.067 billion.	Estimated new revenue from increased federal income tax payments — $300 million; reduced revenue sharing allocations to California governments — $11 million. Net savings or new revenue — $311 million.
Reallocation of responsibility for welfare costs	No change.	State assume cost of most county welfare services now borne by residential property tax.
Equity to homeowner	AV for properties held by the same owner for several years may lag far behind full cash value requiring newly purchased properties to bear a disproportionate tax burden.	Owners of properties of equal value within a single tax code area will continue to pay equal taxes.
Current tax shift from business to residential property	Due to less frequent change in ownership of business property and reassessment provisions of initiative, the current shift from business to residential property will be accelerated.	The current gradual shift of the property tax burden to residential property will be arrested.
Bonding capacity	General obligation and other bonds will become more costly and much more difficult to finance.	G.O. and other bonds will stilll be available for financing capital improvements; G.O. bonds will continue to require a ⅔ voter approval.
Redevelopment agencies	57% revenue reductions and 2% per year AV growth limits will make tax increment financing infeasible.	Gradual rate reductions resulting from revenue limits will reduce receipts slightly; AV growth is not controlled and improvements within redevelopment areas are excluded from computations for establishing revenue limits.
Implementation	Becomes effective July 1, 1978 except for ⅔ Legislative voting requirement which becomes effective immediately.	Became effective March 3, 1978; affects local and state revenues; starting July 1, 1978; will be repealed unless Proposition 8 is approved *and* Proposition 13 is defeated or declared unconstitutional.

Proposition 13's Effect on Local Government and Taxpayers

Advantages to Property Owners and Renters

1. Homeowners will receive $2.3 billion in property tax relief. (Excluding losses to federal and state income taxes.)
2. Businesses will receive $3.9 billion in property tax relief. (Excluding losses to income taxes.)
3. Growth in property taxes will be curtailed by freezing assessment growth at 2% a year.
4. Rents may be positively affected in some areas, depending on the competitiveness of the local rental market.
5. A 2/3 voting requirement will make it more difficult to increase state and local taxes.
6. Placing property tax limitation and other provisions of Proposition 13 in the State Constitution prohibits the Legislature from altering the changes that will be accomplished.

Advantages to Local Government

1. Severely curtailed revenues will force local government to eliminate unnecessary expenditures.
2. Increased difficulty in raising local taxes will provide additional incentive for economies in government.
3. The initiative provides a shock, if one is needed, to realign government priorities in California.
4. If property tax savings are of greater benefit to business than possible negative busines impacts resulting from impairment of local government services, state and local governments might benefit economically by the lower cost of doing business in California.

Proposition 13

Continued from page 10

ments reduced below 1975-76 values as a result of granting of assessment appeals?

• *Does the use of the phrase "qualified electors" render any special tax increase virtually impossible to adopt?* Under the Election Code, an "elector" in California is any American citizen over 18 who has resided in the district 29 days. It can be construed that a qualified elector need not even be a registered voter. Even if "registered voter" is intended in Proposition 13, the adoption of any "special tax" would be difficult because any non-vote becomes a "no" vote under those circumstances.

• *Does Proposition 13 preclude any future bonded debt?* Assuming the local voting requirement in Proposition 13 — whatever it is — can be satisfied, the measure appears to prohibit any new property taxes even for capital outlay. It would seem that cities, counties, and special districts would have to meet future capital outlay needs from two sources: (1) within the 1% property tax limit, or (2) securing approval of ⅔ of the "qualified electors." These options present practical, if not legal, prohibitions against future capital outlay.

As the above questions indicate, the precise effect of Proposition 13 is uncertain. Although the initiative directs substantial property tax reductions, and curtails future tax increases, it does not indicate how cities and school districts will cope with the reduced revenue base. But one thing is certain. If approved, Proposition 13 will have a tremendous impact on local government, school districts and homeowners — on our entire system of local government finance. ■

Disadvantages to Property Owners and Renters

1. Homeowners will receive only 28% of the property tax relief. Business will receive 62% with the remaining 10% going to the state through reduced contributions to business inventory and homeowner property tax relief.
2. Proposition 13 does not guarantee that landlords will pass on property tax savings to tenants in the form of lower rents. Rentals comprise 45% of all residences in California.
3. An increase in state and federal income taxes resulting from decreased deductions for property tax payments will erode homeowner tax savings. Of the $7 billion property tax reduction, approximately $295 million will be lost by taxpayers to the state and $1.9 billion to the federal government.
4. Any increase in either state sales or income tax to replace local revenues will fall more heavily on homeowners than do property taxes. Homeowners pay 35% of property taxes, 55% of sales taxes and 75% of income taxes.
5. Renters are not guaranteed lower rents, yet they will share the burden of higher sales or income taxes.
6. Proposition 13 will cause a constant shift of the total property tax load from businesses to homeowners. This happens because homes are sold more often than businesses and will be reassessed and taxed at full market value after each sale.
7. Two identical properties, receiving the same services, will have dramatically different property taxes simply because of different purchase dates.
8. Assessing newly purchased homes at full market value will penalize people purchasing homes for the first time, older citizens wanting to change homes, and homeowners forced to relocate.

Disadvantages to Local Government

1. Local government will lose over $7 billion in annual revenues.
2. In the absence of replacement revenues, property tax reductions will force a cut in local services with no provision for assuring that basic levels of public safety and education are preserved.
3. Revenue reductions and tax rate limits will restrict the use of General Obligation Bonds and other types of bond financing, making capital improvement projects such as schools, parks and libraries more difficult and expensive to accomplish.
4. Proposition 13 will encourage the growth of "BIG" government by forcing increased local reliance on state and federal revenue sources.
5. Local control over taxation levels is restricted by imposing a stringent voting requirement on local tax increases.
6. The method of distributing property taxes is completely changed, with no guidance offered to develop a new allocation method. As a result, units of local government with high reliance on property tax revenues could lose, in some cases, over half of their funding.
7. Proposition 13 threatens the viability of redevelopment activity in California and makes default on many redevelopment obligations very possible.

CITY OF VALLEJO

GERALD R. DAVIS
CITY MANAGER

June 21, 1978

TO: The Honorable Mayor and City Council
City of Vallejo
City Hall
Vallejo, California 94590

FROM: Gerald R. Davis, City Manager

SUBJECT: Alternate Budget - Fiscal 1978/79

As the date required by the Charter for adopting a budget draws closer and with the inevitable anxiety caused by Proposition 13 on the part of City employees getting higher and higher, I feel strongly that we should proceed on the facts that are known and on assumptions that can reasonably be made, and adopt a budget that relates to our probable revenue picture. As other facts become known and questions answered, the budget can then be amended as required.

Based on suggestions from the Council and giving primary emphasis to a plan that would avoid, if at all possible, any layoffs of existing personnel by achieving the required budget cost reductions through normal attrition and retirements, I have enclosed two approaches to establishing a 1978/79 budget.

The basic data upon which both alternate budgets are based is as follows:

1. The Gross Revenue Loss from the proposed 1978/79 budget totals - $3,981,000

2. Revenue to partially replace this loss that will come from two sources: They are:

   - Vallejo's share of the 1% levy - from the available data, it is reasonable to assume that we will get a pro rata share of the levy which is estimated at ($1,064,000)

     Note: This is a conservative estimate and the total could go as high as $1,300,000.

- Transfer to the General Fund of a surplus existing in the Corp. Shop Fund balance at 6/30/78 (70,000)

3. Therefore, the net amount of lost revenue that must be covered by cuts from the budget proposed for 1978/79 totals: $2,847,000

Alternate Budget #1 (Exhibit I) assumes cutting the entire $2,847,000 and includes the recommended areas and amounts to achieve that reduction.

Alternate Budget #2 (Exhibit II) includes a method of restoring approximately 50% of the reductions from Alternate Budget #1 by increasing the Water System Service Charge by $3.00 per month per household. The net cut would be $1,437,000, phased over this next year.

Compared to the savings achieved by our citizens through Proposition 13, an increase of $3.00 per month per household as the cost of restoring the Police and Fire Departments to their full strength as well as by restoring about half of other service reductions, and provide assistance to GVRD, and would seem to be a reasonable cost.

Neither of these budgets include any anticipated revenue from the State's distribution of their surplus. Nothing to date has been decided on this matter by the State Legislature and current indications are that the city aid will be minimal, so I decided to omit any anticipated revenue from this source. When and if we are allocated any of these funds, the budget can be modified or amended to the extent of the funds allocated.

The following is a detail analysis of each of the items recommended for cutting and/or restoring under each Alternate Budget.

Alternate Budget #1

Operational Budget Fund Reductions

$111,000 - All new proposed positions (4) as well as new programs and capital acquisitions.

165,000 - General Citywide reductions. Community Development Council and all budgets for advisory commissions

eliminated. All non-reimbursed travel, economic development (SCIDA would be funded for one quarter to allow that agency to seek alternate funding sources), advertising and promotion, publications and dues (except League of California Cities) and support of the North Vallejo Community Center.

$230,000 - Reduction in Library Support - JFK would operate 11-8, Monday through Friday. Springstowne Branch would close. No bookmobile service or audio-visual services.

125,000 - Reduction in Public Works Programs
- . Street Lighting - Turn out about one-third of existing lights ($75,000).
- . Sidewalk Repair - Transfer responsibility to property owners ($50,000), as in past years.

70,000 - Reduction in Liability Insurance Cost - This will be achieved by increasing our self-insured deductible to an amount sufficient to achieve this savings in our excess coverage - estimated to go to $500,000 per occurrence from present $100,000 limit.

453,000 - Reduction in Personnel Costs
This savings would be achieved by normal attrition and retirements thus eliminating the necessity of layoffs of existing personnel.

All existing vacant positions and those that become vacant in 1978/79 will be thoroughly analyzed and eliminated if found expendable. If it is not expendable, the plan is to transfer an employee capable of doing the work from one of the positions scheduled to be eliminated and identified in my memo of May 5, 1978. This equates to the elimination of 23 positions out of a total of 408, or a 5.6% reduction in staff. This process will require continuous reexamination during the year to reach planned staffing levels and savings by the end of the fiscal year.

$1,154,000 - Total of above items.

Capital Project Reductions

$625,000 - Capital Outlay Fund - This includes the elimination of both proposed 1978/79 projects - Springstowne Library expansion ($200,000) and the Fire Station Relocation ($125,000) plus an additional $300,000 transfer of part of the unencumbered fund balance.

$398,000 - State Gas Tax Fund - This includes the elimination of all 1978/79 proposed projects ($318,000) plus an $80,000 transfer of the unencumbered fund balance at 6/30/78.

670,000 - Federal Revenue Sharing - This includes the elimination of all proposed 1978/79 projects. (The first year payment to the State for the purchase of the waterfront property would be handled by Community Development funds.)

$1,693,000 - Total above items.

$2,847,000 - Total required cuts under Alternate Budget #1.

Alternate Budget #2

This proposal, as previously detailed, provides for the restoration of $1,076,200 of the budget cuts in Budget #1 as well as providing $335,000 to be divided as follows:

- $185,000 - To be used by GVRD to operate the new Castlewood Pool and the North Vallejo Community Center, and to maintain Marina Vista Park and other City parks.

- $150,000 - To be set aside in a separate fund as a reserve against bond payment shortages in various City obligations - City Hall, JFK Library, South Vallejo Industrial Park, etc.

The detail of the recommended areas to restore the $1,076,200 to the budget is listed on Exhibit II.

The items requiring additional explanation other than included on Exhibit II are:

Police Department - It is not proposed to reinstate the paid School Crossing Guard positions. We would continue to pursue its continuation through volunteers.

Library - This increase would put our total operational support at $226,000, or 63% of the total proposed support figure of $356,000. This is in addition to making the lease payment on JFK of $145,800 which is required in any case.

Community Development Council - Last year's budget for the commissions totaled $58,000 - This $30,000 would put them at about 52% of last year.

<u>Summary</u>

I have prepared these two alternate budgets along the lines suggested by various members of Council.

They both achieve what I feel is one of your main concerns, that of avoiding any layoffs of existing personnel.

Hopefully, through discussion of these two approaches, a consensus of agreement can be reached and adjustments made, if need be, to allow us to adopt a workable budget that provides the level of service required by the citizens.

Very truly yours,

Gerald R. Davis

GERALD R. DAVIS
City Manager

RA:tm

Attachments

EXHIBIT I

CITY OF VALLEJO

ALTERNATE BUDGET #1 - 1978/79

*GROSS REVENUE LOSS - FISCAL YEAR 1978/79			$3,981,000*
LESS: ESTIMATED CITY SHARE OF 1% LEVY			(1,064,000)
LESS: TRANSFER OF SURPLUS CORP. SHOP FUND BALANCE			(70,000)
*NET - TOTAL CUTS REQUIRED FROM PROPOSED BUDGET			$2,847,000*
*RECOMMENDED BUDGET CUTS			
-OPERATIONAL BUDGET FUNDS			
.ALL NEW PROPOSED POSITIONS & PROGRAMS		$111,000	
.GENERAL CITYWIDE REDUCTIONS		165,000	
.REDUCTION IN LIBRARY SUPPORT (65%)		230,000	
.REDUCTION IN PUBLIC WORKS PROGRAMS		125,000	
.INCREASE SELF-INSURED LIABILITY PORTION		70,000	
.REDUCTION IN PERSONNEL COSTS BY POSITION ELIMINATION THROUGH ATTRITION & RETIREMENT		453,000	$1,154,000
-CAPITAL PROJECT REDUCTIONS			
.CAPITAL OUTLAY FUND			
-CURRENT YEAR PROJECTS (100%)	$325,000		
-UNENCUMBERED FUND BALANCE	300,000	625,000	
.STATE GAS TAX FUND PROJECTS (100%)		398,000	
.FEDERAL REVENUE SHARING PROJECTS (100%)		670,000	$1,693,000
TOTAL - ABOVE BUDGET CUTS			$2,847,000

EXHIBIT II

CITY OF VALLEJO

ALTERNATE BUDGET #2 - 1978/79

*TOTAL BUDGET CUTS REQUIRED - ALTERNATE BUDGET #1	$2,847,000*
LESS: REVENUE FROM $3 MONTHLY WATER SERVICE CHG. INC.	(1,410,000)
NET: BUDGET CUTS REQUIRED - ALTERNATE BUDGET #2	$1,437,000*

*ITEMS RECOMMENDED TO BE RESTORED UNDER ALTERNATE BUDGET #2

.STREET LIGHTING-RESTORE TO 100% COVERAGE		$ 75,000
.RESTORE ONE FIRE COMPANY TO STATION NO. 1		180,400
.RESTORE ALL POLICE POSITIONS EXCEPT SCHOOL GUARDS		72,000
.PROVIDE OPERATIONAL FUNDS TO GVRD FOR CASTLEWOOD POOL, NO. VALLEJO CENTER, MARINA VISTA & OTHER PARKS		185,000
.RESTORE 50% OF FINANCE DEPT. CUTS		33,000
.RESTORE 50% OF CITY MANAGER DEPT. CUTS		23,000
.RESTORE LIBRARY FUNDING TO 63% OF PROPOSED BUDGET		100,000
.RESTORE 50% OF PLANNING DEPT. CUTS		10,000
.RESTORE 50% OF LAW DEPT. CUTS		7,000
.RESTORE 50% OF COMMUNITY DEVELOPMENT COUNCIL FUNDING		30,000
.RESTORE LIABILITY INSURANCE SELF-INSURANCE PROGRAM		70,000
.RESTORE SUPPORT OF C/C ($2,500), TOURIST & CONV. ($15,000), ABAG DUES ($1,300), SCIDA ($7,000)		25,800
.RESTORE 50% OF GAS TAX PROJECTS		200,000
.RESTORE: PHASE 2-HOGAN AUDITORIUM REMODL.	$100,000	
FIRE STATION NO. 1 REMODELING	30,000	
PURCHASE FIRE BRUSH TRUCK	30,000	160,000
.RESTORE HISTORICAL & NAVAL MUSEUM SUPPORT		50,000
.RESTORE 50% OF TRAINING & REPRESENTATION FUNDS		40,000
.ESTABLISH FUND FOR CONTINGENCY COST DUE TO BOND DEBT DEFICIENCY ON CITY HALL, LIBRARY, SO. VALLEJO, ETC.		150,000
TOTAL - RECOMMENDED ADDITIONS		$1,411,200*

FINANCE DEPARTMENT

CITY OF VALLEJO

July 3, 1978

TO: Gerald R. Davis, City Manager

FROM: Ron Avanzino, Finance Director

SUBJECT: Revised Proposed Budget - 1978/79

The attached fund schedules have been adjusted to reflect the various changes suggested by the Council Budget Committee for presentation to the City Council for consideration.

The schedules for each fund contain a detail explanation of the changes to that fund from the proposed budget.

An overall summary of the total picture as regards the anticipated revenue loss and the measures suggested to compensate is as follows:

. The total revenue loss included in the Proposed Budget, excluding the 1965 debt service revenue, but including the homeowners and business inventory exemption reimbursement and East Vallejo Fire Department is:	$3,981,000
This loss will be partially offset by the following:	
- Estimated share of the 1% levy (18%)	(1,064,000)
- Estimated share of the State surplus	(750,000)
- Transfer of Corp. Shop balance	(70,000)
Net expenditure reduction required	$2,097,000

This expenditure reduction will take place in various funds (including the General Fund) and provide for an increased transfer to the General Fund where the most significant revenue decrease occurred.

The reductions and transfers to the General Fund are as follows:

	Expenditure Reduction	General Fund Transfer Proposed	General Fund Transfer Revised
Library Fund	$(160,000)	-0-	-0-
Capital Outlay Fund	(325,000)	$200,000	$825,000
State Gas Tax Fund	(95,000)	357,500	595,500
Federal Revenue Sharing	(470,000)	120,000	606,000
Water System Fund	(13,000)	660,000	673,000

The projects remaining in these Special Revenue Funds are:

Capital Outlay Fund - None

State Gas Tax Fund - Traffic Signals at:

1.	Tuolumne at Nebraska & Fleming	$100,000
2.	Sonoma & Magazine	58,000
3.	Georgia & Cedar	40,000
4.	Sonoma & Sereno	25,000
	Total	$223,000

Note: The $150,000 Admiral Callaghan Lane project has been encumbered from 1977/78 funds.

Federal Revenue Sharing Fund

1.	Phase 2 - Hogan High Auditorium	$100,000
2.	Vallejo Naval & Historical Museum Project	25,000
3.	Vallejo Jr. High (sprinkler, turfing and lighting of softball field)	35,000
4.	G.V.R.D. - support for operation of Castlewood Pool - 6 months	40,000
	Total	$200,000

The various expenditure reductions and increased transfers total $1,437,000 which leaves an additional $660,000 to be cut from the General Fund which is generally made up of the following:

1.	All new proposed programs for 1978/79	$111,000
2.	All non-reimbursed travel costs	40,300
3.	Approximately 50% of association dues & civic group support	61,700

4.	Repairs & Maintenance and Materials & Supplies in Police and Fire	$12,000
5.	Reduction in Crossing Guard program, cost of 47% to all transition time to volunteer program.	18,000
6.	Reduction in citywide telephone costs of 10%	9,000
7.	Planned reduction in size of work force over year by 18 positions resulting in labor cost savings of	280,000
8.	Reduction in size of Reserve for Priority Allocation (to $80,000)	18,000
9.	Sidewalk Repair Program	50,000
10.	Reduction in street overlay program (= 60% of Priority C items)	60,000
	Total above items	$660,000

As noted, the schedules attached detail the changes in each fund and provide the specific program reductions and additions.

I will be available at the meeting on Wednesday, July 5, 1978, to answer any questions you or the Council may have.

R. P. AVANZINO
Finance Director

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Attachments

CITY OF VALLEJO

GENERAL FUND

	1978/79 PROPOSED BUDGET	1978/79 REVISED BUDGET	INC.(DEC.) REV. VS. PROP.
BEGINNING BALANCE - JULY 1 -	$ 542,877	$ 542,877	$ -
REVENUE - CASH -	9,417,000	9,409,200	(7,800)
TRANSFERS IN -			
State Gas Tax	357,500	595,500	238,000
Traffic Safety Fund	25,000	25,000	-
Water System	660,000	673,000	13,000
Revenue Sharing	120,000	606,000	486,000
Capital Outlay	200,000	825,000	625,000
Retirement Fund	2,014,200	-	(2,014,200)
Total Transfers	3,376,700	2,724,500	(652,200)
Total Available Funds	13,336,577	12,676,577	(660,000)
EXPENDITURES -			
General Government	1,612,460	1,515,900	(96,560)
Public Safety - Fire	2,842,120	2,806,460	(35,660)
- Police	4,130,160	4,075,300	(54,860)
- Other	77,940	75,240	(2,700)
Total - Public Safety	7,050,220	6,957,000	(93,220)
Public Works	2,807,290	2,659,200	(148,090)
Fixed Charges	1,541,800	1,517,700	(24,100)
Planned Payroll Savings		(280,000)	(280,000)
Reserve-Priority Allocations	98,432	80,402	(18,030)
Total Expenditures	13,110,202	12,450,202	(660,000
TRANSFERS OUT -			
Library Facility	145,800	145,800	
Local Transportation	32,225	32,225	
Marina Operations Fund	15,000	15,000	
Police Grant Programs	33,350	33,350	
Total Transfers	226,375	226,375	-
Total Appropriations	13,336,577	12,676,577	(660,000)
ENDING BALANCE - JUNE 30 -	$ -0-	$ -0-	$ -0-

See following page for details.

GENERAL FUND

REVISED 1978/79 BUDGET DATA

The revised 1978/79 General Fund Budget was balanced through a combination of expenditure reductions in the General Fund and in other Special Revenue Funds which allowed for substantially increased transfers into the General Fund.

The detail of the changes in the Special Revenue Funds is noted on the following pages. The detail of the expenditure changes as compared to the Proposed Budget is as follows:

General Reductions are: (Figures in parenthesis = Revised Budget Amount)

1.	All new programs including 4 positions	$111,000
2.	All non-reimbursed travel	40,300
3.	50% of Community Dev. Council Budget ($30,000)	25,700
4.	50% of the support of S.C.I.D.A. ($7,000)	7,000
5.	100% of No. Vallejo Community Center support	6,000
6.	42% of Chamber of Commerce Support (Tourist & Convention=$15,000, Armed Forces Committee=$2,500)	15,000
7.	Various association dues cut 60% (ABAG @ 30%, dues=$1,300, League of California Cities=$4,000)	8,000

Specific Department Reductions are:

Fire Department	- Materials & Supplies	5,000
Police Department	- School Crossing Guards ($20,000)	18,000
	- Repairs & Maintenance	2,000
	- Materials & Supplies	5,000
Public Works	- Telephone Costs ($81,000)	9,000
	- Sidewalk Repair Program	50,000
	- Street Overlay Program ($239,322)	60,000

Other Reductions are:

Salary Costs - A planned reduction in positions & costs to total approximately 18 permanent position reductions and a 1978/79 total payroll cost savings of	280,000
Reserve for Priority Allocations - This was reduced $18,000 from the Proposed Budget as the result of less reserve money available due to all other increases and decreases in revenue & expenditures.	18,000
Total - above reductions	$660,000

CITY OF VALLEJO

LIBRARY SYSTEM FUND

	1978/79 PROPOSED BUDGET	1978/79 REVISED BUDGET	INC.(DEC.) REV. VS. PROP.
BEGINNING BALANCE - JULY 1 -	$ 4,506	$ 4,506	$ -
REVENUES -			
Property Taxes	352,000	192,000	(160,000)(1)
TRANSFERS IN -			
Capital Outlay - Remodeling			
General Fund - Facility Lease	145,800	145,800	-
Total Transfers	145,800	145,800	-
Total Available Funds	502,306	342,306	(160,000)
EXPENDITURES -			
Solano County	356,000	196,000	(160,000)(1)
Facility Lease Payment	145,800	145,800	-
Total Expenditures	501,800	341,800	(160,000)
ENDING BALANCE - JUNE 30 -	$ 506	$ 506	$ -

(1) Adjustment reflecting the decrease of $160,000 in revenue allocated in 1978/79 for support of the City of Vallejo Library System.

CITY OF VALLEJO

CAPITAL OUTLAY FUND

	1978/79 PROPOSED BUDGET	1978/79 REVISED BUDGET	INC.(DEC.) REV. VS. PROP.
BEGINNING BALANCE - JULY 1 -	$ 649,906	$ 649,906	$ -
REVENUES -			
Property Taxes	-	-	
Property Transfer Tax	280,000	280,000	
Building Development Tax	225,000	225,000	
Sale/Development of Property	34,000	34,000	
Total Revenue	539,000	539,000	-
TRANSFERS IN -			
Marina - Remark Rent	10,000	10,000	-
Total Available Funds	1,198,906	1,198,906	-
EXPENDITURES -			
Springstown Library Expansion	200,000	-	(200,000)(1)
Fire Station Relocation	125,000	-	(125,000)(1)
Total Expenditures	325,000	-	(325,000)
TRANSFERS OUT -			
General Fund	200,000	825,000	625,000 (1)
Total Appropriations	525,000	825,000	300,000
ENDING BALANCE - JUNE 30 -	$ 673,906	$ 373,906	$(300,000)

(1) Adjustments to the Proposed 1978/79 Budget reflecting the elimination of the two proposed projects and the increase in the transfer to the General Fund for support of capital projects and operations.

CITY OF VALLEJO

STATE GAS TAX FUND

	1978/79 PROPOSED BUDGET	1978/79 REVISED BUDGET	INC.(DEC.) REV. VS. PROP.
BEGINNING BALANCE - JULY 1 -	$156,547	$142,400	$ (14,147)(1)
REVENUES -			
Apportionment by State	674,100	674,100	
Interest Earned	10,000	10,000	
Other Reimb. & Revenue			
Total Revenues	684,100	684,100	-
Total Available Funds	840,647	826,500	(14,147)
EXPENDITURES -			
Gas Tax Projects	318,000	223,000(3)	(95,000)(2)
TRANSFERS OUT -			
General Fund - Total	357,500	595,500	238,000 (4)
Total Appropriations	675,500	818,500	143,000
ENDING BALANCE - JUNE 30 -	$165,147	$ 8,000	$(157,147)

(1) Reduction in estimated beginning balance at 7/1/78.

(2) Reflects the net reduction recommended in 1978/79 proposed gas tax projects as follows:

*Projects Eliminated	
- Sacramento Street Widening - Redwood to Gardner	($30,000)
- 4 Traffic Signal Controllers	(40,000)
- Traffic Signal-Benicia Rd. & Lemon St.	(15,000)
- Fairgrounds Dr. Improvements at Corcoran Dr.	(75,000)
Total Eliminated	(160,000)
Less: Projects added to 1978/79 Budget	65,000-See(3)
Net Reduction	$(95,000)

(3) 1978/79 Revised Budget Projects:

- Traffic Signal - Tuolumne/Nebraska/Fleming	$100,000
- Traffic Signal - Sonoma & Magazine	58,000
- Traffic Signal - Georgia & Cedar (Added 6/78)	40,000
- Traffic Signal - Sonoma & Sereno (Added 6/78)	25,000
Total Revised Budget	$223,000

(4) Reflects increased transfer to General Fund for street maintenance due to reduction in projects and carry forward balance at 6/30/79.

Note: The $150,000 cost committed to by the City for improvements on Admiral Callaghan Lane has been encumbered in 1977/78 and is already deducted from the balance available at 7/1/78.

CITY OF VALLEJO

FEDERAL REVENUE SHARING FUND

	1978/79 PROPOSED BUDGET	1978/79 REVISED BUDGET	INC.(DEC.) REV. VS. PROP.
BEGINNING BALANCE - JULY 1 -	$ 16,650	$ 16,650	$ -
REVENUES -			
Federal Entitlements	790,000	790,000	-
Total Available Funds	806,650	806,650	-
EXPENDITURES -			
Council Approved Projects	670,000	200,000	(470,000)(1)
TRANSFERS OUT -			
General Fund	120,000	606,000	486,000 (1)
Total Appropriations	790,000	806,000	16,000
ENDING BALANCE - JUNE 30 -	$ 16,650	$ 650	$(16,000)

(1) Adjustment reflecting the recommended revision in the proposed 1978/79 Federal Revenue Sharing Program as detailed below:

*Projects Eliminated

- First year payment on State Waterfront Property - to be paid with Community Development Funds	$135,000
- Police Department Anti-Crime Program	50,000
- South Vallejo Community Center	100,000
- River Park Improvements	50,000
- Amador Street Tennis Court Lighting	25,000
- Remodeling of Fire Station No. 1	30,000
- Brush Fire Truck	30,000
- Veterans Memorial Building Improvements	15,000
Total Eliminations	$435,000

*Projects Maintained & Added

- Phase 2 - Hogan High School Auditorium Remodeling	$100,000
- Vallejo Naval & Historical Museum Improvements	25,000
- Vallejo Jr. High (Sprinkler, Turfing & Lighting)	35,000
- GVRD Support - Castlewood Pool Operation - 6 mos.)	40,000
Total Maintained	$200,000

CITY OF VALLEJO

WATER SYSTEM OPERATIONS FUND

	1978/79 PROPOSED BUDGET	1978/79 REVISED BUDGET	INC.(DEC.) REV. VS. PROP.
BEGINNING BALANCE - JULY 1 -	$ 81,937	$ 81,937	$ -
REVENUES -			
Sale of Water			
General	2,020,000	2,020,000	
Contract	445,000	445,000	
Tapping	80,000	80,000	
V.S.F.C.D. Charge	42,000	42,000	
Property Leases	6,000	6,000	
Service Charges-Water Usage	270,000	270,000	
Service Charges-Main Repl.	117,000	117,000	
Total Revenue	2,980,000	2,980,000	-
TRANSFERS IN -			
Retirement Fund	176,000	176,000	-
Total Available Funds	3,237,937	3,237,937	-
EXPENDITURES -			
Current Expenses	2,284,310	2,271,310	(13,000)(1)
Capital Outlay	76,150	76,150	-
Total Expenditures	2,360,460	2,347,460	(13,000)
TRANSFERS OUT -			
School Grounds Imp. Fund	22,000	22,000	-
Water Reserve -			
Water Main Replacement	117,000	117,000	-
General Fund			
Cost of Services	160,000	160,000	-
Franchise Fees & Taxes	100,000	100,000	-
General Operating	400,000	413,000	13,000 (1)
Total Transfers	799,000	812,000	$ 13,000
Total Appropriations	3,159,460	3,159,460	-
ENDING BALANCE - JUNE 30 -	$ 78,477	$ 78,477	-

(1) Adjustment reflecting the anticipated reduction in property tax cost on property outside of the city limits and the commensurate increase in the transfer to the General Fund.

RESOLUTION NO. 78-586 N.C.

BE IT RESOLVED, by the Council of the City of Vallejo, as follows:

THAT WHEREAS, the City Manager did heretofore on May 15, 1978, submit to the City Council of the City of Vallejo a budget for the Fiscal Year 1978/79 of

a. Estimated revenues from all sources, and

b. Proposed expenditures required to support all lawful and necessary activities in the conduct of the business of the City of Vallejo,

said proposed budget being submitted pursuant to Section 701 of the City Charter, and

WHEREAS, pursuant to Section 702 of the City Charter, a general summary of the budget information as to times and places where copies of the budget would be available for inspection by the public, and the time and place for public hearing on the budget, was duly published in the Vallejo Times-Herald, the official newspaper of the City of Vallejo; and

WHEREAS, a public hearing on said proposed budget was conducted by the City Council on Monday, June 26, 1978, and continued to Wednesday, July 5, 1978; and

WHEREAS, after closing said public hearing on the proposed budget, and in consideration of the impact of Proposition 13 passed subsequently to May 15, 1978, the City Council has found it necessary to revise the proposed budget as follows:

1) GENERAL FUND

A) Revenues & Transfers In - Reduced ($673,900) to $12,119,800

- Property tax revenue reduced ($145,700) to $623,300.
- Homeowners & Business Inventory exemption reimbursement reduced by ($450,000) to $200,000.
- Anticipated revenue from allocation of the State surplus added at an estimated $750,000.
- Water System Fund Transfer reduced by ($163,000).
- State Gas Tax Fund Transfer increased by $238,000.
- Revenue Sharing Fund Transfer increased by $486,000.

- Capital Outlay Fund Transfer increased by $625,000.

- Retirement Fund Transfer eliminated ($2,014,200).

B) <u>Expenditures Reduced by ($673,900) to $12,436,302</u>

- All new programs and personnel proposals eliminated- ($110,990).

- All non-reimbursed travel eliminated except $3,500 for City Council ($36,800).

- Community Development Council total budget set at $30,000 - Cultural Commission is to get a minimum of $15,000 and the balance is to be allocated to other Commissions as they determine-Budget reduced by ($25,660)

- Solano County Industrial Development Association support cut 50% - Reduced ($6,900).

- Support of North Vallejo Community Center by General Fund eliminated - Reduction of ($6,000).

- Advertising & Promotion reduced by ($10,100)- Remaining budgets equal - Armed Forces Committee $2,500, Tourist & Convention Bureau $15,000, Fourth of July Parade Support $5,000.

- Association dues reduced by ($7,200) - Remaining budgets equal - ABAG @ $1,300 (30% of 1977/78 dues) and League of California Cities @ $4,000.

- Public Relations Assistant budget reduced by 50% ($6,000).

- Fire Department reduced by ($5,000) - to be cut from Materials and Supplies Budgets.

- Police Department reduced by ($24,900) as follows - School Crossing Guard Budget ($18,000) ($20,000 left for 1978/79 to allow for transition to volunteer program) - $1,900 cut from Repairs & Maintenance, $5,000 cut from Materials and Supplies.

- Public Works Department reduced by ($137,000) as follows - Telephone costs $27,000, Sidewalk Repair Program $50,000, Street Overlay Program $60,000, (equals 60% of Priority C items proposed for 1978/79.)

- Reserve for Priority Allocations reduced by ($17,350) to $81,082.

- Overall reduction in Personnel costs through the elimination of vacant positions to total ($280,000) in 1978/79.

2) <u>WATER SYSTEM OPERATIONS FUND</u>

- Transfer in from the Retirement Fund eliminated ($176,000) reduction.

- Expenditures reduced ($13,000) to allow for lower property taxes to be paid on Water System property in Napa County.

- Transfers Out to General Fund reduced by ($163,000) as the result of the above two items.

3) LIBRARY SYSTEM FUND

- Revenues reduced by ($156,000) due to decreased property taxes available.
- Expenditures reduced ($160,000) to compensate for revenue decrease.

4) STATE GAS TAX FUND

- Proposed 1978/79 Gas Tax Projects reduced by ($95,000).
- Transfer Out to General Fund for support of Street Maintenance Program increased by $238,000 to $595,500.

5) CAPITAL OUTLAY FUND

- Proposed expenditures for 1978/79 eliminated - total reduction ($325,000).
- Transfer Out to General Fund increased by $625,000 to $825,000 for support of operations.

6) FEDERAL REVENUE SHARING

- Council approved projects revised and reduced by ($470,000). Projects approved for 1978/79 are:

A)	Phase 2 - Hogan High Auditorium	$50,000
B)	Naval & Historical Museum Support	25,000
C)	Vallejo Jr. High Field Improvements	35,000
D)	GVRD Operations Support	90,000
	Total	$200,000

- GVRD support to be allocated to operation of the Castlewood Pool, maintenance of Marina Vista Park area, and operation of the North Vallejo Community Center.
- Consideration is to be given to rebudgeting the $35,000 for Vallejo Jr. High to GVRD operations support if GVRD utilizes their bond funds to complete this project.

7) CORPORATION SHOP

- Eliminate ($30,800) transfer from the Retirement Fund due to lack of available property taxes.

8) RETIREMENT FUND

- Eliminate ($2,150,000) revenue from property taxes.

BE IT RESOLVED, by the Council of the City of Vallejo that the proposed budget of the City of Vallejo for the fiscal year 1978/79 as revised herein by the Council of the City of Vallejo, is hereby approved in accordance with the provisions of Section 702 of the City Charter, said budget being dated May 15, 1978, and being now on file in the office of the City Clerk, and the same, as so revised by action of the City Council, is hereby adopted and approved as the budget of the City of Vallejo for the fiscal year 1978/79.

BE IT FURTHER RESOLVED, that all departmental budgets shall be fixed as herein approved, and any budget increase or decrease found necessary as stated herein shall be provided in the budget when prepared and published in final form by the City Manager.

BE IT FURTHER RESOLVED, that any subsequent revisions deemed necessary by the City Manager as the result of significant variations between projected carry-forward fund balances at July 1, 1978 and the actual carry-forward fund balances, and/or a significant variation in the amount of property taxes and/or other revenues to be realized as compared to the projected amount, be submitted to the Council for ratification and approval prior to being incorporated in the final published budget.

ADOPTED by the Council of the City of Vallejo at an adjourned regular meeting held July 5, 1978, by the following vote:

AYES: Councilmen Berry, Boschee, Cunningham, Douglas, Intintoli, Keith and Sibley

NOES: None

ABSENT: None

FLORENCE E. DOUGLAS, MAYOR

ATTEST:

MILDRED R. WATSON, CITY CLERK